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# MANAGEMENT REVIEW

MAY 1961

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## MEETING FOREIGN COMPETITION



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## IN THIS ISSUE

- **Handwriting on the Wall.** Asked recently what current management problem bothered them most, a representative group of company presidents were almost unanimous in identifying top management's top headache: foreign competition. In certain industries, of course, the problem is a familiar one, but it's a new and startling development for many others who are suddenly being confronted with tough and relentless competition—not only in the export markets to which they have become accustomed, but right here on their own home ground. In this month's special two-part feature, JOHN P. MAGGARD examines the reasons for our present vulnerable position in the international-trade picture (page 4), and GERALD G. FISCH discusses some measures that urgently require consideration if U.S. industry is to hold its own in world markets (page 16).
- **Farewell to the Happiness Boys.** Whatever its other effects, the cost-profit squeeze is exerting some wholesome influences on employee relations, declares JAMES M. BLACK, whose article (page 38) traces the widening pendulum swing away from human relations as an end in itself.
- **Costs and Controls.** K. S. AXELSON's article (page 59) tells why and how management can profitably use responsibility reporting—a method of controlling costs by building specific cost liability into the organizational function of individual managers and their departments.
- **MR's New Format.** With this issue, MANAGEMENT REVIEW goes into a new format. The cover design was done by Elizabeth Pollock; the interior design of the magazine, as well as this month's cover art, by Pageant Studio, New York City.

—THE EDITORS

# MANAGEMENT REVIEW

## SPECIAL FEATURES

### Meeting Foreign Competition:

- I. The Handwriting on the Wall ..... *John P. Maggard* 4
- II. Guides to Action ..... *Gerald G. Fisch* 16
- Farewell to the Happiness Boys ..... *James Menzies Black* 38
- Effective Control Through Responsibility Reporting .... *K. S. Axelson* 59

## BUSINESS DIGESTS OF THE MONTH

- The Economic Outlook: A U-Shaped Upturn ..... *Newsweek* 26
- There's Money in Fun ..... *Dun's Review and Modern Industry* 29
- Keeping Corporate Cash on the Job ..... *Management Methods* 32
- Planning Your Executive Career ..... *Business Review* 35
- Does Advertising Really Pay? ..... *Printers' Ink* 48

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HARWOOD F. MERRILL, *Editorial Director*  
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## THE MONTH'S BEST IN BUSINESS READING

Challenges of the Second Industrial Revolution	<i>The New York Times Magazine</i>	51
What Is an Executive Worth? .....	<i>Harvard Business Review</i>	54
Organizing for Numerical Control .....	<i>Steel</i>	56
The Case for the Permanent Arbitrator .....	<i>Industrial Relations News</i>	68
The Businessman—Trustee for Society? .....	<i>The Business Quarterly</i>	71
Air Pollution and Community Relations .....	<i>G. Edward Pendray</i>	74
Fix It Before It Breaks .....	<i>The Wall Street Journal</i>	77

### DEPARTMENTS

Also Recommended: Summaries of other Timely Articles .....	80
Survey of Books for Executives .....	84

COVER DESIGN: ELIZABETH POLLOCK/COVER ART: PAGEANT STUDIO

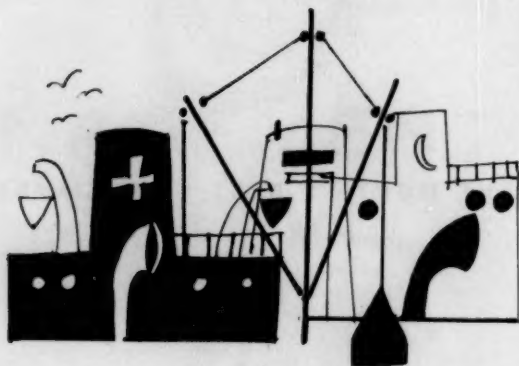
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# Meeting Foreign Competition:

## I. THE HANDWRITING ON THE WALL

■ John P. Maggard

*School of Business Administration  
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**A**NOTHER GOLD RUSH is in progress in the United States—one that is not at all like the great gold strikes of the past. Claims are being staked at a rate that runs well into the billions of dollars, but most of them thus far have centered around the vaults of a few federal reserve banks, especially in New York City.

And now the "mother lode" in the vicinity of Fort Knox, Kentucky, is being tapped.

The prospectors in this gold rush are not the sourdoughs of the past; they are the owners of dollar accounts abroad, who are choosing to trade these dollars for gold claims.

There was a time—in the late

A MANAGEMENT REVIEW SPECIAL FEATURE

1940's and most of the 1950's—when the “dollar gap” was the principal deterrent to the export of American goods and services. There was no cause for concern about the relative desirability of American-produced items on the world market. In fact, there was little concern about foreign trade in general, since it accounted for only a negligible portion of our gross national product. Nor were we troubled about the possible invasion of our domestic market by foreign producers; foreign items seemed shoddy and inferior in comparison with their American counterparts.

This was the time when we considered Latin America our own little back-yard market and the entire free world an exploit-as-you-will area, waiting with bated breath for any fair-weather shipments that the expanding American economy could do without and wished to spill over to the eager foreign customer. At this time, the dollar was at its peak as the most coveted medium of exchange throughout most of the free world—with little or no connection between its value and the yellow elephant we had so securely tucked away in the vaults of Fort Knox.

#### **A Different Picture**

In the late 1950's, we began to show some concern about the adverse balance-of-payments situation, as it was manifested in export trends and reflected in shifting gold claims—and today, raising our heads from

the sand, we find some changes in the picture. The relative portion of the gross national product devoted to foreign trade is still small, but the mixture is changing rather rapidly in the direction of increased U.S. imports; foreign-produced goods are no longer considered shoddy and inferior, and we find an increasing number of industrial users and ultimate consumers preferring a wide variety of lower-priced imports to U.S.-made products. Our own little Latin American back-yard market is fast slipping away to our competitors in Western Europe and Japan, as are many other overseas markets in which American goods held the advantage during the first postwar decade. It would appear that we have finally begun to realize that we will need not only to retain all our “spill-over” markets, but also to expand markets outside the United States. Despite a growing American market, automation is resulting in surplus productive capacity—both in basic industrial-goods industries and in many lines of consumer goods.

#### **The Gold Flow—A Symptom**

Both imports and exports are increasing annually, but the increase in U.S. imports is steadily exceeding the increase in exports, and herein lies a long-run cause for concern. This unfavorable export situation can no longer be explained away by the dollar-shortage argument; our potential customers abroad have for

some time had more dollars than they have elected to spend on American goods. Foreign dollar-holders are choosing instead to trade dollars for gold, and this trend has caused our recent attempts to stem the tide and arrest the drain on the U.S. gold supply.

It should be noted that the flow of gold is a symptom, not the actual illness. The real problem is not the desire for gold, but the fact that too many foreign recipients of dollars do not want American merchandise. More and more people abroad are refusing to purchase overpriced American goods when the same items can be obtained from various competitors, in comparable quality and at more attractive prices.

### ***Crying Wolf?***

Is this picture unnecessarily pessimistic? Some economists would think so. They maintain that the export problems now facing the United States are temporary in nature; that our allies will soon be able to purchase our goods because of their spectacular rise in purchasing power; that price differentials will gradually narrow as wage differentials disappear on the foreign scene; that our friends will reduce the discriminatory regulations now being imposed on American goods; and that bankers of other nations will help to bolster the dollar in the financial markets of the world. Many of these economists contend that our supposed troubles are

greatly exaggerated by those industries that would much rather "cry wolf" than compete. They soothe our fears by pointing out that the merchandise balance is still in our favor, and that the imbalance of payments is the result of giveaway programs that have long been sponsored by our federal government.

Much of this is true. The imbalance of payments might be partially accounted for by the various programs of loans, gifts, and grants; and it is also true that we currently sell more merchandise than we buy. Small comfort can be gained from our present balance in the merchandise account, however, when the over-all trend is considered: During the period 1953 to 1958, our imports increased by 77 per cent while our exports increased by only 27 per cent. And this trend is continuing: In 1956 our merchandise exports totaled approximately 17.3 billion dollars, and during the past fiscal year they had increased to a total of approximately 17.9 billion dollars. Such a rate of increase in merchandise exports falls far short of keeping pace with either imports or growth in gross national product.

### ***Causes of Trend***

What accounts for the unfavorable trend in merchandise exports and the unfavorable position in the over-all balance of payments? Some of the basic reasons are:

1. Our program of loans, grants, and giveaways in the name of mili-

tary and economic aid to foreign nations.

2. Our postwar role of assuming the lion's share of the financial burden for the defense of the free world.

3. Heavy expenditures of Americans overseas, including expenditures of military personnel and their dependents who are located at overseas bases and installations.

4. Private American investment in economies outside of the United States.

5. Our failure to meet foreign competition, both on the basis of price and on the basis of total marketing effort.

During the past fiscal year, despite a favorable balance in our merchandise account of 2.4 billion dollars, we sustained a net loss of 3.2 billion dollars when total U.S. receipts and expenditures are taken into account. Such imbalances have resulted in varying small amounts of gold losses throughout most of the postwar period. The drain became more serious about 1958, and it has proceeded at a rate that, if continued, might even jeopardize our ability to provide sufficient gold to back our own currency in circulation.

#### **Proposed Solutions**

Obviously, in the face of current trends, measures should be taken to improve the balance-of-payments situation. Proposed solutions range all the way from withdrawing U.S. troops from our foreign outposts to

increasing tariffs and devaluating the dollar. The Eisenhower Administration made some moves to arrest the flow of dollars abroad, but at best they will provide only partial relief, since they apply mainly to expenditures abroad by American citizens.

#### **The Cold-War Burden**

There is considerable merit to the argument that the United States has been too benevolent in its postwar role of bolstering the economies of war-torn allies, as well as those of the former enemy nations of Germany, Japan, and Italy. Many of these nations are now on a much sounder economic basis than they were in prewar years, yet they often fail to meet the United States halfway in mutual benefit programs.

Perhaps our recent program of moral suasion may eventually have some measure of success in persuading our healthy friends to assume a fair share of their own common defense, to remove some of the discriminatory restrictions against the exports of their benefactor, and to bear their proportionate share of the cold-war burden involved in preventing the spread of communism in the underdeveloped areas of the world. But the outlook is not very encouraging; recent discussion of the Congo question in the United Nations, for example, evidenced the familiar belief on the part of many nations that the United States should bear most, if not all, of the expense involved in U.N. operations there.

Such measures as the withdrawal of military dependents from abroad or the sharing of developmental expenditures by allied nations would no doubt help to bring the U.S. balance of payments into line. In the long run, however, the adverse trend in exports is not likely to be reversed by such fringe-area factors. The principal account is, and always has been, the merchandise account, and the solution to the balance-of-payments problem will require the dedicated efforts of several different segments of our economy.

#### **The Merchandise Account**

What factors hinder the progress of American sales abroad? Among others, there is the problem of relatively high prices; the problem of restrictive discrimination on the part of many importing countries; the sluggish, half-hearted marketing efforts of many American exporters; and the growing problem of American firms getting into the competitive picture from their subsidiary plants abroad.

The question of whether or not the United States is pricing itself out of the world market is widely debated. Some analysts contend that our prices are currently increasing more slowly than those of our competitors and that, as a consequence, price differentials are narrowing. Yet a recent issue of *Life* shows a different view of relative price movements. *Life* states that the price level of U.S. export goods has in-

creased 22 per cent during the past decade, while those of West Germany have risen 11 per cent and those of Japan have increased only 2 per cent. The cold, hard facts seem to indicate that even in the absence of any discriminatory practices on the part of importing nations we would be competitively priced out of the market in several important categories of export goods. Furthermore, as competitors such as Japan and the nations of the European Common Market hit their stride, there is little promise that our prices will become more competitive in the short run.

#### **Price Differentials**

Reports in *U.S. News and World Report*, *Steel*, and other sources have for some time stressed the extent to which we are losing our world markets. Such reports often indicate the price differentials that exist between U.S. goods and those of our close competitors. Certain examples of specific items indicate the extent to which various American goods are currently overpriced. It is interesting, for example, to note that the American-invented item of barbed wire can be sold in Dayton, Ohio, for \$40 per ton less by German manufacturers than by Cleveland producers; imports of this item currently exceed exports by more than 50 times. A hundred pounds of German-made wire nails can be delivered in Peoria, Illinois, at a duty-paid price of \$8.35, while the



comparable Peoria-manufactured item sells for \$9.80. German-manufactured portable typewriters sell in this country for \$69, while their American counterparts sell at \$79; meanwhile, domestic manufacturers of typewriters are in the process of giving up the manufacturing of portables and standard uprights entirely in the United States. The extent of foreign competition in this particular line is evidenced by the fact that typewriters are currently being imported in sufficient volume to account for approximately 25 per cent of all sales in the United States, as compared to only 2 per cent in 1948. The story is practically the same in such lines as sewing machines, still cameras, jeweled watches, bicycles, chinaware, and hardwood plywood, to mention only a few items.

### **The Cost in Jobs**

Actually, if our imports were confined to such categories as clothespins, umbrella frames, steel flatware, and pottery, such competition might well be expected. When, however, we begin to feel serious competition within the home market in such heavy-employment industries as basic steel products, machine tools, radio and electronic parts, and even automobiles, the problem takes on a more serious nature.

A recent issue of *Steel* estimates that, as a result of foreign competition, the following number of jobs were lost to American workmen be-

tween 1956 and 1959: steel mill products, 46,400 jobs; passenger cars, 39,400 jobs; typewriters, 260,181 jobs; sewing machines, 383,048 jobs; and so on down the roster.



Whether or not these figures present an accurate picture of American job losses—and there is no reason to doubt their authenticity—it is clear that an increasing number of American jobs are being lost to competition from abroad. Perhaps some of these shifts might be expected as a postwar return to normalcy; if, however, this is to be a continuing rate of job displacement, then labor's expectations in the future will depend quite heavily upon the ability of American industry to make rapid adjustments.

### **Import Restrictions**

There are various factors other than price that may contribute to the foreign customer's reluctance to accept American goods. When a none-too-competitive base price is further hampered by a stiff discriminatory penalty imposed by the importing country, American-made

goods can become prohibitively expensive for foreign customers. The automobile serves as a case in point: The U.S. car that sells in Pittsburgh for \$3600 would cost the customer in France approximately \$8240; the French government imposes duties of \$3200 plus a purchase tax (equalization fee) of 40 per cent as a premium for dollars. In addition to these prohibitive restraints, the French imposes an annual use tax of \$240. The same automobile would cost about \$5880 in Italy, and approximately \$8000 in England (provided it was allowed to enter under the strict import quota of 650 cars per year from the United States and Canada).

#### ***The Automobile Market***

Our foreign market potential for automobiles is very poor, even in the total absence of artificial import restrictions. In the first place, the American automobile is too large and powerful for the highways of Europe; furthermore, it uses too much gasoline. The work time required to purchase a gallon of gasoline is one hour and fifty-five minutes in France; two hours and ten minutes in Italy; forty-four minutes in the United Kingdom; and only eight minutes in the United States.

Most of our postwar sales of automobiles abroad might well be attributed to the fact that foreign producers were somewhat slow in getting into full-scale production. In 1955, we exported 254,000 auto-

mobiles and imported 57,000; in 1960, we exported 160,000 units and imported 520,000. Some people have been optimistic about the future export possibilities of American automobiles, but the present trend toward making our "compacts" even larger and higher priced than current models would not seem to justify such optimism.

#### ***Joining the Competition***

The importation of foreign goods into the United States could be checked rather effectively through the tariff mechanism. (Our present tariff rate on automobiles, for instance, is only 8.5 per cent.) Pressure is now being exerted in this direction: Some labor groups, as well as certain industrial interests, favor increased tariff rates as a protective measure. For the most part, however, industry realizes that we cannot expand our markets in the long run by higher protective tariffs.

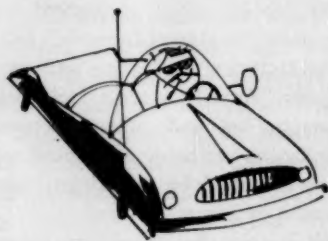
One way American industry has found to overcome price disadvantages is by playing both ends against the middle and following a policy of "joining the competition." American firms concentrate on the high-income domestic market with the type of merchandise and levels of price that this market is capable of absorbing. At the same time, competition is being met abroad from subsidiary plants located in foreign countries.

During the past decade, several thousand U.S. firms have joined the



opposition, either by building plants abroad or by buying into foreign industry. As of the end of 1959, U.S. long-term private investment abroad had reached 41 billion dollars—more than double the foreign long-term investment here in the United States. Of this total, direct investments in foreign subsidiaries and branches was 30 billion dollars, a figure that represents a 250 per cent increase over 1950. Furthermore, American investment abroad is currently increasing at the rate of approximately 10 per cent per year.

The automotive industry, again, serves to illustrate the extent of the trend toward overseas investment by U.S. firms. All the principal American producers of automobiles are increasing their export of capital at a rapid rate, building up assembly



and manufacturing plants abroad. General Motors, with a work force exceeding 100,000 in its installations in eighteen countries, is currently investing more than 200 million dollars to increase its foreign operations. The company built approximately a half-million cars in

Germany and England alone in 1959. Ford Motor Company has more than doubled its factory sales of foreign-produced cars, trucks, and tractors during the past decade and has recently made news headlines with its increased investment in Great Britain. Studebaker-Packard has manufacturing and sales subsidiaries in Canada and Mexico; American Motors does quite well with its British-manufactured Metropolitan, as well as with the output from its plant in Canada. Chrysler Corporation has seventeen wholly owned subsidiaries overseas and is now grooming the Valiant for overseas assembly and sales. These examples illustrate some of the foreign activities of the large automobile producers; in addition, the Willys Jeep is manufactured in considerable volume outside the United States, and Kaiser still has one of the leading automobiles being made in Argentina.

#### **A Growing Trend**

An examination of various other industries would show the same trend in overseas investment. Take the case of Philco, with plants in Italy; American Cyanamid, with plants in Western Europe; Du Pont, with six European companies and eleven installations in Latin America; Parke, Davis and Company or Minnesota Mining and Manufacturing Company, with their installations in South Africa: In these and many other companies, the trend

toward foreign investment is apparent.

#### ***Implications for Labor***

Certain implications of this overseas flight of capital may not be readily apparent. It is true that the profits from foreign investments do return to the United States and thereby benefit the stockholders of these American firms. But what effects could such investment have on payrolls in the United States? It must be admitted, for example, that automobile tires manufactured in Firestone's South African subsidiary and subsequently sold in Western Europe might possibly reduce the number of tires being manufactured in Akron, Ohio. The effect can be far greater, however, when American firms ship the foreign-produced articles back into the U.S. market.

In the machine-tool industry in this country, for instance, such "foreign-American" competition is quite possible. The U.S. machine-tool industry faces wage rates, exclusive of fringe benefits, of \$2.70 per hour, compared with 35 cents per hour in Italy, 60 cents per hour in Germany, and 85 cents per hour in England. Even allowing for fringe-benefit costs that may run much higher than comparable U.S. costs in some countries, such wage differentials obviously place American manufacturers at a disadvantage. Many machine-tool firms now have plants abroad, and it is pos-

sible to build tools to U.S. specifications in some of these foreign subsidiaries and then bring them back to the United States for 30 per cent less than they can be produced for here, even after transport and tariff costs are added. It is not surprising, then, that machine tools are currently being imported into the United States at a rate ten times that of a decade ago; indeed, we can expect an increasing portion in the future to originate in U.S. subsidiaries located abroad.

#### ***Departing Industries***

This trend of producing abroad and shipping homeward is further indicated by the fact that Remington Rand is now shipping portable typewriters into the United States from Holland; International Business Machines, with ten plants in Europe, is now feeding office equipment into the domestic market from their overseas factories; and more and more of our "American-made" television sets, radios, and other electronic appliances are being assembled with parts supplied by American plants located in Japan.

It is true that subsidiary assembly plants abroad sometimes serve as additional outlets for the output of parts-manufacturers located here at home. In many U.S.-owned assembly plants abroad, however, non-American sources are being utilized for component parts, even though the parent company may produce these same parts in the United

States. These installations operate as profit centers and therefore utilize the most efficient suppliers, regardless of ownership. For example, the International Harvester assembly plant in Durban, South Africa, with a sales volume of approximately ten million dollars a year, uses no American-manufactured parts at all. These International Harvester tractors are all assembled with British-manufactured parts, at a cost something like 25 per cent lower than the cost of purchasing parts from parent plants in the United States.

#### ***The Search for Profit***

Can American industry be blamed for exporting American jobs? If we accept the philosophy of profit motivation that underlies the free-enterprise system, then the matter of blame is not an issue. Our businessmen have long been known for their ability to recognize a good profit situation, and it is always profitable to take advantage of the most efficient combination of economic resources, wherever that situation may be found. A glance at the total hourly employment costs per person of steelworkers in the United States, as compared with those abroad, tells a significant part of the story. Figures produced by the American Iron and Steel Institute show that in 1957 the average total hourly employment cost per person were as follows: United States, \$3.22; West Germany, \$1.01; United Kingdom, 90

cents; and in Japan, 46 cents. Moreover, steelworkers in the United States have received significant wage increases since 1957; the total hourly employment cost per worker in the first part of 1959 was \$3.70.

If relative production costs are partially responsible for the trend toward investment abroad, then it would follow that American labor has a vested interest in the factors that affect such production costs—and labor accounts for well over half of average production costs in American industry.

#### ***Wages and Productivity***

What does organized labor think about the wage-price spiral and its consequent effects on our struggle for markets abroad? Labor currently campaigns for a 30- to 32-hour week, with no reduction in pay. Union leaders in the steel industry, for instance, take the stand that, "while the steel industry reaps a harvest of profit, they deny the workers a few grains of wheat." These same labor leaders maintain that fewer workers are producing more steel, but not getting a fair share of the profits; industry, they feel, should be willing to "shorten hours and distribute the work available to a larger number of people . . . to maintain purchasing power so that workers can buy things they need to keep the American economy prosperous." Such were the arguments published in full-page newspaper ads by the United Steelwork-

ers during the most recent steel strike.

In contrast, Roger Blough, chairman of the board of U.S. Steel, has pointed out that the American steelworker is one and a half times as productive as his German counterpart—but three and a half times as expensive to the business. Hence, according to Blough, the American steelworker's unit-employment costs are 2.3 times as great as those of his German counterpart. This situation calls for an improvement in our productivity—wage increase ratio, when in fact, just the opposite has been taking place: For many years, wage costs have increased faster than productivity throughout most of American industry.

#### ***Automatic Markets?***

Samuel Gompers, asked to explain the long-run goal of organized labor in America, summed it up in the single word, "More." Labor continues, year by year, to push for this "Gomper Goal," regardless of what the long-run consequences may be. American workers seem to have accepted the idea that domestic markets are insatiable at any level of prices; as long as the workman's wages keep increasing, an automatic market is assured. One good look at the coal-mining industry should help to point out the fallacy in this line of reasoning.

It is imperative that we in the United States recognize, and soon, that our markets *are* vulnerable,

both here and abroad. If we do not begin to take steps to improve our competitive position, our plush standard of living might well be in jeopardy. We no longer face foreign competitors who are operating on a horse-and-buggy basis, with ancient equipment, shoddy materials, and an unskilled labor force; our competitors abroad now have equally efficient plants and equipment—plus a favorable wage-productivity trend as well.

Industry can do much to retain and restore our dwindling world markets. We must shake off our complacency and realize that we have never had a monopoly on brains, and we no longer have a monopoly on scientific technology. Our friendly competitors (some in common-market organizations, and others going it alone) are quite capable of providing healthy competition in any part of the trading world—including our own domestic markets.

#### ***Outlook for the Future***

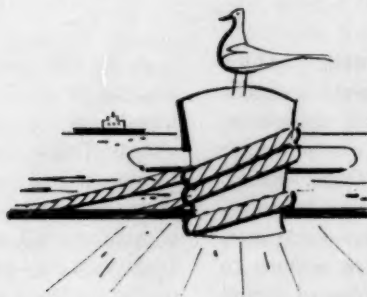
This analysis of our trade position has not even taken into account the communist threat to "bury us" in open economic competition. The threat is one, however, that must be reckoned with, and it adds another element to the competition that U.S. companies are experiencing in world markets.

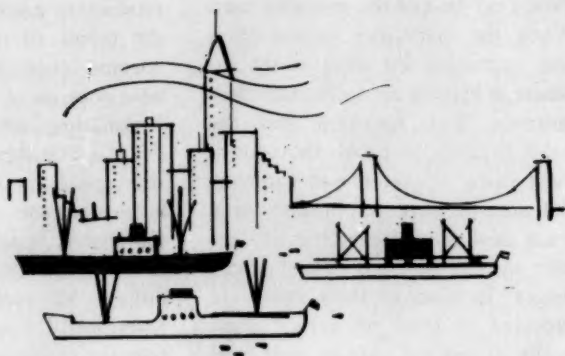
Some observers have been unduly encouraged by the marked improvement in our merchandise balance in

1960 over that of the previous year. When the particular commodities that accounted for most of the increase in exports are fully examined, however, it is apparent that the boost is likely to prove short-lived. Such items as cotton and commercial aircraft were responsible for a great deal of our merchandise export surplus of 1960. The "export surges" in many of these items are expected to level off rather drastically during the current year, and the export volume of some, such as commercial aircraft, is likely to fall short of 1960 levels. Nothing in the outlook for the future indicates a halt or even an appreciable slowing of the constant rise of U.S.

production costs, so we can expect the prices of our merchandise to become even less competitive as time goes on.

American labor must recognize the fact that American industry will survive—even if it is forced to relocate outside the boundaries of the United States. The investor not only can but will go abroad with his dollars, his tools, and his capital equipment. And the worker who fails to recognize that his employer must stay competitive to survive may find that the goose that used to provide those golden eggs has migrated to a more favorable climate, somewhere beyond the borders of the United States. ♦





# Meeting Foreign Competition:

## II. GUIDES TO ACTION

■ **Gerald G. Fisch**

*Vice-President and Director  
Bruce Payne Associates*

**T**HERE is really nothing sudden about the threat of foreign competition; a number of U.S. companies anticipated it years ago and have met it with considerable success. For every one of these, however, there are many other companies that have done little or nothing to develop a workable plan of action to meet their needs.

A decade ago, the pre-eminent position of the United States in international business was uncontested. Today, however, the war-torn industrial nations have rebuilt their economies—many of them, with substantial assistance from the United States—and U.S. manufacturers are faced with tough competition, not only in the export

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markets to which they have become accustomed, but right here on their own home ground. And the United States is finding itself doubly vulnerable: Its rich markets attract foreign competition, while high costs often make its own products noncompetitive in the export markets of the world.

What can be done to improve this situation, which is aggravated by a persistent balance-of-payments problem? The government has taken some tentative steps to correct the imbalance, and pressure is being brought from various quarters for additional action to assist U.S. industry in its struggle to become more competitive. Before looking at the role that government plays, however, it would be best to examine the role of industry—to see what U.S. companies can and should do to solve their own problems.

### **Competition Abroad**

To begin with, what can manufacturers do to meet the growing competition in overseas markets? Traditionally, many United States manufacturers have not taken a great interest in export markets; the domestic market has been sufficiently attractive and sufficiently large that the need to export has not been readily apparent. For this reason, many companies have considered the export market merely an extra added attraction—one that would be always available if

one wanted to take the time and trouble to enter it.

### *Knowledge of the markets*

Now, however, companies that are doing only some exporting as well as those with a full-scale export program will have to adopt a more aggressive approach to marketing overseas. This will require a much better knowledge of foreign markets and foreign business practices. A great deal of information of this kind is available through U.S. and foreign government departments; in addition, consultants and specialists in the field can be of tremendous assistance. To obtain first-hand knowledge, it is often desirable to send key executives abroad—preferably men who know the language of the country—to make an on-the-spot review of conditions and determine the best plan of action for the company.

When foreign distributors are used, great care should be taken to select only the best-qualified firms—and to give them all the assistance and training necessary to do an effective job for the company.

### *Advertising and promotion*

Whatever method of distribution is chosen, it must be supported by advertising and promotion that is appropriate to the country. It is no longer enough to use a warmed-over domestic advertising campaign to sell products abroad; each individual market and each segment of the

market should be studied, and the product, the package, the promotions, and the entire sales effort should be designed to fit that particular market.\*

The United States is not entirely without advantages in this competition for foreign trade: In many fields, American know-how and methods are superior to those of foreign competitors; in many other instances, U.S. products have technological advantages over foreign products. And the vast investment in research and development in this country makes it likely that U.S. companies will continue to have the advantage of an initial head start when introducing new products, before foreign manufacturers can begin to turn out similar products and cut into the market. But to make the most of these advantages, American businessmen must give foreign markets the same serious and painstakingly detailed study that they devote to their markets in the United States.

#### **Competition at Home**

It has become increasingly clear, of course, that the competitive battleground for U.S. and foreign manufacturers is not always in other lands. The tremendous increase in foreign imports into the

United States has given many companies cause for serious alarm about the safety of their domestic market, as consumers discover that foreign products can be every bit as good, and considerably less expensive, than the domestic brands they have been accustomed to buying.

#### *Simplified product lines*

U.S. manufacturers can, however, take steps to overcome the price advantages that many imported goods enjoy. For one thing, product lines can often be simplified profitably. By offering somewhat less variety and eliminating many superficial variations of types, styles, and colors, the manufacturer can utilize longer production runs and other means of reducing costs and increasing profits—at the same time, giving the customer a good value for his dollar.

#### *The premium on quality*

A prominent American businessman has pointed out that "Appearance is no longer the prime factor in selling—we are now in an era of functionalism." It's a buyer's market, and today's buyer is a comparison buyer; quality is uppermost in his mind. The age of frills is in the past; forced obsolescence is no longer acceptable; and the enormous costs of restyling that were (and often still are) considered inevitable no longer contribute to profitability. Today's consumer is

\* For a fuller discussion of the problems of adapting to business customs, manners, and mores abroad, see "When in Rome," by Stefan Jean Rundt, in the February, 1960, issue of *MANAGEMENT REVIEW*.



more concerned with what goes into a product than with its exterior appearance—and if he doesn't find the quality he wants in American-made products, he will turn without hesitation to foreign goods.

In other words, we must eliminate some of the frills, reduce waste, and work harder to increase the quality of our products and our manufacturing efficiency. This, of course, must be a continuing effort; if we are to maintain our high standard of living and high wage rates in the face of competition from abroad, the efforts of management and labor alike must be turned to getting the best possible results for every dollar expended.

#### *Uses of substitution*

Along these lines, Peter Drucker has suggested that one means of meeting foreign competition without disrupting the price structure or the economy might be substitution: developing products and services that cut the cost to the consumer without any lowering of return on investment. He points out, for example, that a full economy jet flight is just as profitable as a full first-class propeller flight, and it brings in more net dollars per employee. Similarly, compact cars offer the same transportation and style as standard models, but are much less expensive; prestressed concrete is as good as structural steel in many applications, but far cheaper; and so forth. This is an

area in which the undoubted superiority of American research and development can make a great contribution.

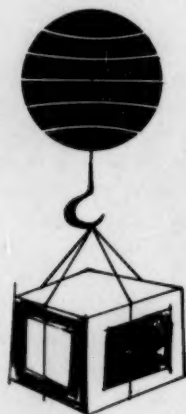
#### *The Role of Labor*

The idea of holding the line on costs naturally brings to mind the subject of rising wage rates and the effect that labor will have on the competitiveness of American industry. When labor makes up more than half of the total costs of production, it is difficult to see how our competitive position can be improved by increasing wages. It has been suggested, of course, that our wage rates are not too high, but the rest of the world's are too low; in the future, pressure may be put on international union federations to attempt to increase wage levels of workers in other countries in order to bring them more in line with those presently being paid in the United States.

#### *Wages and productivity*

At present, however, this solution seems rather remote. And the problem of chief concern is not so much that wages are high, but that the disparity between wage rises and productivity increases is growing greater. Productivity increases in the United States average out to about 2 or 3 per cent a year, and there is no reason why union members should not share in them; but as long as labor costs continue to increase faster than productivity,

U.S. business will have a difficult time reducing costs and becoming more competitive.



It is time for labor and management to realize that they are not antagonists, but partners in the struggle for survival. In order to keep jobs from migrating across the seas, labor must work with management to make American industry more efficient—and if the leaders of organized labor do not understand this, management must show them the facts of competitive life.

#### *The right to strike*

More and more union leaders are recognizing that they have a vital stake in improving the competitive position of U.S. industry. In many cases, they are not opposing such measures as automation that will make industry more efficient, but are working with management to reduce any temporary

harmful effects that may result. And there is a growing feeling that the strike as a method of settling industrial disputes is a luxury we can no longer afford. Strikes bring inconvenience and losses to the public, industry, and labor, and they often give additional impetus to the already substantial invasion of foreign products into domestic markets. Finding other legal means to settle industrial disputes in an equitable fashion requires serious study and demands statesmanship on both sides, but it will benefit both parties and strengthen the economy as a whole.

#### **Organization and Personnel**

One thing that management can do immediately is to re-evaluate organizational and personnel programs—specifically, to take a sharper look at the role of the specialist in American industry. In many companies today, general executive ability is a far more important determinant of a man's growth in an organization than technical capability, and this fact often leads top specialists to desert the area in which they can make the greatest contribution. In one aircraft company recently, a highly qualified designer did such a good job on the design of a complicated wing structure that he was promoted to the management of a large design division. He soon found out that the meetings and paperwork involved in his new position neces-

sitated his being absent from the design table continuously. In rewarding the man in this manner, therefore, the company lost its most experienced designer—and gained a rather disheartened administrator.

Stories like this are not uncommon in the United States, for many companies still have no provision for advancing a specialist in his own field without making him a manager and taking him away from the very work for which he is best suited. In European countries, the role of the technician is far more important, and the rewards for a job well done are not only more beneficial for the man himself, but for the corporate employer as well. There seems to be no sense in hiring and training expert engineers and scientists if in order to progress in the company they must inevitably take on jobs of a far more general scope than the positions for which they are better suited by training, aptitude, and interest.

#### *Administrative overhead*

An even more general problem than this is the rather expensive approach that American industry has taken to management itself. Lower wage rates are not the only advantages foreign competitors enjoy; just as advantageous are the lower costs of overhead overseas. A comparison of the organization of some key firms in Germany, Switzerland, England, or Japan with typical American practice reveals a

significant difference: A foreign company with the same number of workers in its plant is quite likely to have a salaried administrative staff a third the size of its American counterpart.

At least one reason for this difference may be the fact that the roles of management are more clearly understood abroad, and its responsibilities are more definitely met. Instead of teaching our young executives to "get along" with people, we should realize that a healthy organization must be a business enterprise, not a social institution devoted to mass happiness. Vigorous, dynamic, straightforward leadership is now more necessary than ever before, and the specific responsibilities must be shouldered by a few, not by a succession of committees.

#### *Decentralization*

Perhaps the most important re-evaluation to be made concerns the corporate organization structure. During the past fifteen years, many large companies—and, for that matter, many smaller organizations—have placed tremendous emphasis on decentralization. This is not the place to compare the benefits of centralization and decentralization, but it is appropriate to point out that decentralization can be harmful when control over fundamental long-range profit-making decisions and planning is divisionalized.

Decentralization can lead to two problems: First, emphasis may be placed on maximizing the profit in a division, rather than in the overall organization; and second, the company may find itself competing internally, with the hard-to-measure costs being borne by the corporation as a whole. With the growth of competition from abroad, the need today is for better internal cohesion—better control and coordination of corporate planning and profit objectives. Integrated data-processing and improved communications facilitate the achievement of this goal in a centralized organization, even in a large company. The roles played by divisions must be clearly defined and consistent with the over-all plans of the organization.

#### **Remedies Requiring Government Action**

What actions can the government take, both to correct the adverse balance-of-payments situation and to help U.S. industry to become more competitive? Within the past year, some steps have already been taken; briefly, they include:

- Attempts to curb the expenditure of dollars abroad by American tourists, military personnel and their dependents, and United States military posts and diplomatic establishments overseas. Such measures as these cannot be

expected to produce monumental results.

- Attempts to encourage friendly nations to remove discriminatory restrictions against American goods.
- Attempts to correct the imbalance of payments by placing "buy American" restrictions on foreign economic aid.
- Attempts to persuade allies who are now economically strong to bear their share of common defense expenditures and to pick up more of the tab for helping underdeveloped countries.
- Attempts to provide more protection for domestic mills by raising tariffs on imports of wool and worsted textile fabrics, and by imposing a quota system.

In addition, other government actions have been advocated, including:

- A program of financial aid and tax concessions for United States industries that have been hurt by import competition.
- A policy of providing more defense contracts to industries and areas hit by import competition.
- Devaluation of the dollar.
- Insistence that other countries offer most-favored-nation treatment to Japan, which would enable Japanese goods to enter other markets and

ease some of the pressure on U.S. markets, where so much of the Japanese exports are now concentrated.

- Curtailment of economic aid to nations that have simply grown accustomed to it, on the theory that the efficacy of a policy of buying countries away from communism is open to serious doubt.
- Provision of some sort of credit insurance to exporting firms, since it is often possible to counteract a price disadvantage by offering more liberal terms of credit.

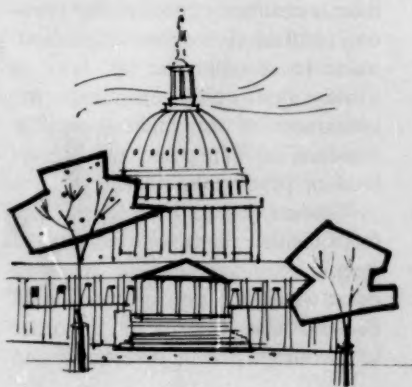
Of course, not all these remedies and partial remedies have won universal support and acceptance. It seems doubtful, for example, that increasing tariff barriers or imposing import restrictions will solve the problem; such a policy might help some industries, but certainly not the entire economy—and it is probable that it would invite retaliation in kind from countries that are actual or potential U.S. markets. And devaluation of the dollar, while perhaps superficially appealing in some quarters, would cause a loss of confidence in the dollar that would prompt the holders of the billions of dollars in foreign balances in this country to pull them out and place them elsewhere. Since the U.S. dollar has, along with gold, become the standard of value of Western business, maintaining confidence in its health

and strength is imperative to the economic well-being of the Western world. Moreover, such a move would be rendered useless by other nations that follow the simple expedient of devaluating their own currencies.

### **The Antitrust Laws**

In addition to these proposals, most of which are, at best, small steps in the direction of a solution, several longer-range remedies that may have a more far-reaching effect have been suggested. The first of these is a revision of the present antitrust laws.

In some foreign countries, the government takes the position that national industry cooperation is necessary to a large extent—to avoid duplication of research-and-development efforts, to increase productive efficiency, and to make the country more productive as a total industrial entity. In contrast, many observers believe that the



United States antitrust laws place American industry at a peculiar disadvantage. In their view, American and foreign industry are like two boxers, one of whom must fight under a rigid set of rules, while the other fights with no holds barred.

One thing appears certain: The present antitrust laws were not intended or designed for today's world economic and business conditions. They need a thorough study to determine what revisions would benefit the U.S. economy as a whole and, at the same time, provide adequate safeguards for the free competition that has traditionally been cherished by Americans.

#### ***Revision of the Tax Structure***

The second long-range remedy that has been proposed is a radical revision of the tax structure of the United States. Many different individuals and groups have charged that corporation taxes, depletion allowances, and individual taxes have a stultifying effect on the economy, and many proposals have been made to recodify the tax laws in a way that would encourage the attainment of the highest possible standard of living and the highest level of productive efficiency.

Measures that have been put forth include plans for reducing the steeply graduated income tax to a point where the top tax rate would be less than 50 per cent, in order to encourage private investment and

provide individual incentive for better performance; reduction of corporate income taxes, to provide industry with more capital for re-investment; and accelerated depreciation allowances, to permit modernization of plant and equipment.

#### ***Depreciation***

A comparison of United States capital-consumption allowances with those of key foreign competitors illustrates the need for more realistic policy on depreciation allowances. Most other nations allow a much faster write-off than does the United States, and this factor can have a definite bearing on the ability of U.S. industry to maintain its technological superiority in many fields. During World War II, under the five-year amortization program, a manufacturer could write off needed capital equipment much more quickly than he can today, and this apparently involved no long-term loss of revenue to the federal government. In many competing industrialized nations, governments that have encouraged plant modernization through liberalized depreciation laws have actually increased their revenues. Faster amortization enables the manufacturer to make needed capital investments, both for replacement of obsolete plant and equipment and for the purchase and construction of new facilities. He must be encouraged to do this if the United States is to compete in world markets.



Many other aspects of the tax structure have also come under attack. The present form of inheritance taxes, for example, discourages the small businessman from reinvesting large sums of capital into his company, since it often has to be sold in order to pay these duties. In fact, the inequities and inconsistencies in the tax laws have grown so much over the years that piecemeal revision is no longer enough; what is needed is a thorough overhaul of the entire structure. Few actions by the government could have more beneficial effects on the growth of the nation's economy.

#### **A Time for Action**

The problems of foreign competition are not simple problems, and they will not be solved simply. It is wishful thinking to expect that the competitive forces gathering strength in many parts of the world will diminish as time goes on. On the contrary, the United States is entering an era of intense worldwide competition—competition to which, in its present state, it is becoming increasingly more vulnerable.

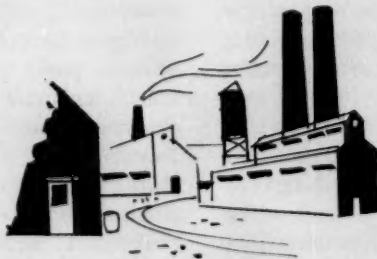
Perhaps what is needed is the formal development of a cooperative effort by various levels of govern-

ment, various industries, and various labor organizations to coordinate both private and governmental efforts to strengthen the economy. Such cooperation may prove necessary, for the problem is too great to be solved by any one sector alone.

#### **Meeting the Challenge**

Ten years ago, the average American businessman did not concern himself to any great degree with the problems of foreign competition. Today, the situation has changed considerably, and within the next ten or fifteen years the pressures of competition from abroad are likely to change the structure of American business dramatically. Many American companies will emerge, by choice or by necessity, as international enterprises—not only to protect their own markets, but to take advantage of the vast opportunities for U.S. business in the growing markets of the world.

The United States can no longer afford to coast; the time has come for an aggressive drive to raise real productivity and real purchasing power, and to regain our pre-eminence in world markets. The people of this country have always risen to a challenge; given proper direction, they will rise to this one. ♦



# The Economic Outlook: A U-Shaped Upturn

By John A. Conway and Hobart Rowen

*Condensed from Newsweek*

**T**HE HEARTBEAT of the economy is sounding stronger and louder. It is heard in the roar of Pittsburgh steel mills firing up to fill fresh orders; in the clamor of Detroit's speeded-up automobile assembly lines; in the pandemonium of New York's stock exchanges; and in the bustle on construction sites, in department stores, and at travel agencies across the nation. Even the rustle of the economists' dry charts sounds a fresh note. For example, the latest check by Geoffrey Moore of the National Bureau of Economic Research showed that nine of the Bureau's twelve trend-spotting "leading indicators" were pointing upward. And fresh from a top-level business-and-government conference in Washington, president Frederick R. Kappel of AT&T recently concluded: "We are about at the bottoming-out position."

The big question now is: What will be the shape of the recovery? Will it bump along bottom before turning up (saucer-shaped)? Will it move gradually (U-shaped) or briskly (V-shaped) higher?

Searching their charts and order books, most businessmen now seem to expect a slow, gradual upturn (U-shaped)—and they are pleased at the prospect. San Francisco's Cyril Magnin, president of the Joseph Magnin high-fashion clothing chain, hopes for a "moderate" 5 per cent upturn. "If our economic growth is slow and steady, we'll not only surpass all previous peaks but go on to a virtually unlimited ceiling." Vice-president William F. Butler of New York's Chase Manhattan Bank believes that industry will climb back to its old production peak (111 per cent of the 1957

*Newsweek (April 17, 1961), © 1961, by Newsweek, Inc.*



average on the Federal Reserve's index) by September and will set a new record before the year is out. And, Butler believes, by the end of 1962 the economy will be pouring out goods and services at a rate of 565 to 585 billion dollars (compared to about 500 billion dollars now).

### **Viewing the Prospects**

Here is how businessmen in key industries view the upturn:

**Steel:** Salesmen can finally find use for their order books again. Wheeling Steel vice-president F. A. McClelland says that March shipments ran 20 per cent ahead of the January-February average, and that April is expected to exceed March. Jones & Laughlin tells almost the same story. U.S. Steel finds the prospects for May "encouraging." But no steel man expects any wild rush: In 1961, they expect to pour about the same amount of metal as they did last year—around 100 million tons.

**Autos:** The final sales figures for March have put a fresh bloom on Detroit's optimism. During the month, customers drove off with 482,000 new models—34 per cent more than in February—and production schedules came to life. Ford is cranking up to make 30 per cent more cars in the second quarter than in the first quarter. Chrysler expects a 40 per cent boost, or 48,000 more cars, in April, May, and June. Despite this,

top auto economists still predict the moderate type of recovery. One economist, who last November estimated 1961 sales of six million U.S.-built automobiles, now forecasts a 5.8 million sale this year.

**Textiles:** Though they're keeping a wary eye on booming foreign competition, executives in the textile industry feel that the turning point is near. Given relief from imports, says president Charles A. Cannon of Cannon Mills, a "very good" year lies ahead.

**Aircraft:** After three years in an economic downdraft, plane builders now see the trend leveling off. And the space program promises to put the blue back in the sky. "It has spawned a whole new industry," says Lockheed chairman Robert E. Gross. With engineers in the hundreds of thousands, facilities worth 500 million dollars, and a myriad of subcontractors and suppliers, Gross continues, the space industry adds up to the beginning of a vast commercial new-products effort.

**Construction:** Companies in heavy construction started the year with a rush: The F. W. Dodge Corp. reports that contracts in the year's first two months ran to more than 1.3 billion dollars—23 per cent above the same 1960 stretch. The pickup so far in 1961, says Dodge's chief economist, George Cline Smith, is "due almost entirely to a few heavy engineering projects, primarily by electric utilities and pipelines." Still waiting to come to

life are the roadbuilders and the homebuilders, Smith reports.

### **Still Slow for Some**

Some industries still face slow going. General Electric chairman Ralph J. Cordiner maintains that this will be "a rugged year—especially for companies making durable goods." Cordiner's problem, like that of so many durables manufacturers, is the consumer. For

months now, the public has shown its concern over the economy by tightening the purse strings on "big ticket" purchases: autos, television sets, and refrigerators. Installment debt, the source of most big purchases, is still a mountainous 42.3 billion dollars, but it was trimmed 103 million dollars in January, 208 million dollars more in February—reversing a steady build-up that started in October, 1958. ♦



"Good morning, gentlemen. My name is Hood, and I'd like to introduce a new profit-sharing plan."



## There's Money in Fun

By Claire Trieb Slote

*Condensed from Dun's Review and Modern Industry*

THE RECREATION MARKET, once the private preserve of a few specialty producers, is now wide open. Americans, who have about 40 billion dollars a year in loose change to spend, are participating in recreation more and more. Manufacturers are turning out lighter-weight equipment—some of it in

pastel colors—to get the women playing.

Businessmen out to profit from family fun are boosting goods that make sports easier for beginners. And, notes President Edwin L. Parker of A. G. Spalding & Bros., Inc., schools will be calling for more team equipment.

Dun's Review and Modern Industry (April, 1961), © 1961 by Dun & Bradstreet Publications Corporation

But competition is not confined to the playing fields. U.S.-made fishing tackle, ball gloves, guns, and racquets are seriously threatened by rivals from abroad. And at home, some manufacturers find that products made in woodsheds can suddenly and seriously undercut sales. Comments an American Machine and Foundry executive: "Where products are easy to make and competition rises fast, leadership counts. You've got to get there first."

The changing seasons also have their perils: Many companies which ship in September don't get paid till April. According to Vice-President F. E. Troy of Brunswick Corp., "The only real strength is to assemble a full line of sports equipment, so you can offer retailers more and give your salesman a story to tell."

Some companies in the recreation field are insuring the popularity of their sports by organizing clubs. Bowling leagues were the first; there are 70,000 today. Now boating, camping, shooting, and ski clubs are busily creating lifetime buffs.

#### **Ship Ahoy**

There are now some 4000 marinas and boatyards in the U.S., plus 1150 yacht and boat clubs. And another million applicants couldn't get moorings last year. Some forty million Americans took part in this first-place glamour sport in 1961, piping themselves aboard eight million boats to the tune of

2.5 billion dollars for equipment, accessories, maintenance, and club fees.

Electronics manufacturers are flocking to the water's edge: Raytheon Company with marine radio-telephones, depth sounders, and channel monitors; Sperry Rand's Sperry Piedmont Company with navigational aids; Radio Corp. of America with small-craft radar. Add to this the 168 million square feet of sheet plywood, the 90 million pounds of reinforced plastic, and the 70 million pounds of aluminum that were used last year—and the boating market is clearly an appealing one.

Almost as attractive, though, is the bowling business. The countryside is sprouting new sixty-lane alleys that boast miniature golf links, billiard tables, night clubs, nurseries, and restaurants. The cause of it all is the automatic pinsetting machine which catapulted American Machine & Foundry and arch-rival Brunswick Corp. onto the recreation scene. An estimated 27 million bowlers now spend some 500 million dollars annually on lane fees alone, and proprietors invest the same sum for buildings and equipment.

#### **Off Pace for Pools**

Last year, while the boating and bowling sales rolled in, one segment of the recreation industry took a dip: in-the-ground swimming pools. Last year's 56,500 installations

represented a sizable drop from 1959's 70,000. Still, the 1960 tab came close to 700 million dollars, with another 300 million dollars for cleaning compounds, chemicals, floats, and patio furniture.

Plunging in after the pool chemical business are such giant corporations as Johns-Manville, Olin-Mathieson, Monsanto Chemical, Pennsalt Chemical, and Columbia Southern Chemical. In addition, Laars Engineering and A. O. Smith are pursuing the pool water-heater business, and oil companies like Esso and Gulf are noting the fuel that such heaters consume.

Boating, bowling, and swimming may be the "comers" in the recreation sales field, but photography remains America's favorite hobby, says *Photo Dealer* magazine. It estimates that 52 million amateurs take still pictures and home movies. Consumer sales figures are tough to separate from industrial and professional volume, but 1961 estimates hover between 400 and 500 million dollars for cameras and film alone, and the market is growing.

#### **Fore!**

There's also growth ahead for another old favorite, golf. Equipment sales rose from 60 million dollars a decade ago to over 100 million dollars last year. By 1965, they should hit 123.7 millions. Biggest equipment news is Cushman Motors' electric car. Biggest golf course news is the par-3 course.

Both will get more golfers on and off the fairways faster. Despite the shrinking supply of suitable sites, there were 6385 courses (374 of them par-3's) in operation last year.

#### **Firearms**

Firearms—once first in recreation dollar volume—now sit in third place, behind boating and photography. "Surplus military firearms from overseas definitely hurt us," says Winchester-Western's vice-president, W. Miller Hurley—but industry sales hit 250 million dollars last year. For 1965, the National Sporting Goods Association sees 268.5 millions. New sales ammunition: more emphasis on skeet and trap shooting, more public hunting preserves, more lightweight guns. Remington Arms has a new rifle made largely of structural nylon, and President Maxwell Worden predicts a big trend to new materials.

In winter sports equipment, NSGA reports sales of 15.4 million dollars in 1960. To this can be added five to ten million dollars invested in the slopes, plus some fifteen million dollars in skiers' uphill fees.

The call of the wild is still strong, according to NSGA. Last year, tent sales hit 45.9 million dollars (compared with 15.4 million dollars in 1950). The trend is toward greater comforts: "cottage" tents, foam rubber mattresses in sleeping bags, and portable cooking and lighting equipment. ♦

# Keeping Corporate Cash on the Job

*Condensed from Management Methods*

**I**DLE FUNDS can drain away profits. A growing number of companies are putting their dollars to work by freeing capital that is tied up in areas promising little or no return and by directing available funds into the most profitable channels. Here are some practical suggestions for keeping your corporate cash on the job, adapted from a report prepared by the Research Institute of America, Inc.

## **Tighten up Credit**

Even if your turnover of receivables seems satisfactory, improvement may well be suggested by a review of the credit and collection cycle. For example:

*Tighten credit selectivity.* Bad debt losses of \$10,000 can eat up the profit on roughly \$100,000 in sales. Experience shows that chronically slow-pay customers are rarely the more profitable ones, especially if the cost of the extra collection effort is figured in. Keep credit in-

formation on each customer up to date and review the lines of credit often.

*Don't provide customers with reasons for nonpayment.* A customer faced with an apparent difference between his accounts and yours may be tempted to postpone payment. You can never entirely eliminate errors and misunderstandings on prices, discounts, or shipment, but tightening the reins may well be justified. A quick review of correspondence regarding outstanding bills and credit adjustments can tell you how serious the problem is.

## **Reduce Inactive Stocks**

A department may be holding on to stocks that are nearly useless. A company-wide search for these white elephants is essential to any tightening of purchasing and inventory control.

*Regularly dispose of obsolete or damaged stock.* The tendency to squirrel away items because they

Management Methods (April, 1961), © 1961 by Management Magazines, Inc.



"may be needed some day" can usually be squashed by a straightforward demonstration of how much stock costs—and how much cash can be freed by prompt disposal.

If your company maintains current inventory records, slow-moving stocks will show up in your records. If your control depends on a periodical physical inventory, it may be desirable to count more frequently. It's important to uncover all obsolete materials, goods, parts, or supplies.

*Eliminate idle raw material and work-in-process inventories.* Determine if any incomplete production runs are held in work-in-process; if they can be converted to more salable items without much added expense; how wise it would be to return material to suppliers, even if a charge is made for restocking.

#### **Utilize Investment**

Any part of the business may have contributed to a total investment that exceeds the company's real needs. "Just in case," the office manager may be holding on to a few extra typewriters and calculators, or the warehouse boss may be keeping an extra fork-lift truck. While corrective action must include all standby facilities, the effort will concentrate on excess manufacturing capacity.

*Take on uneconomic jobs to utilize idle equipment.* A bookkeeping machine that is idle two-thirds of the time might be used to run a

more detailed sales analysis or production cost breakdown. Such jobs by themselves might never pay the full freight on an office machine. But if equipment is working only part-time, you can use it to obtain additional data—or at least to get standard data more promptly. Opportunities to save exist more frequently with production equipment. Thousands of companies are filling production capacity by doing low-profit subcontract work on defense products.

*Go after "plus business."* "Plus business" usually consists of orders at less-than-accustomed markup. For this reason, be careful to avoid affecting the price level of regular products. Many companies are boosting their output, at least as a temporary measure, by manufacturing private-label products for others; accepting volume orders for slightly different products that could not be obtained at the regular markup; or obtaining orders for special products whose prices will not have to conform to regular patterns.

#### **Study Inventory Policies**

Inventories can be a major drain on working funds. Whether a concern builds to order or mass produces to sales forecasts, stocks are a prime source of capital.

*Minimize inventory imbalance.* A shortage in a critical part or a small amount of missing material can pile up inventories of other items disproportionately. Special controls may

be justified—for example, establishing procedures to correct immediately any delay in shipment by a supplier or to reflect it in the rescheduling of other incoming materials.

*Eliminate duplicate safety factors in production.* A plant section working on a product often allows its own extra time to guarantee meeting its target date. After eliminating each section's time insurance—from purchasing to packaging—a company can establish one over-all safety factor that can shorten production cycles.

*Shorten production runs.* Longer runs usually result in lower unit costs—but they also tend to unbalance inventories and tie up capital. A re-examination may show that the cost savings do not come up to the profits which might be earned by alternate uses of the funds.

*Tighten controls on key items.* Broad systems of inventory control almost always must be tailored by

the company to provide proportionately greater emphasis on the “20 per cent of the items that make up 80 per cent of the value.” Unless your system has been reviewed recently, selective tightening now may produce substantial savings.

*Check alternate sources of supply.* The need for faster production cycles should focus attention on the movement of inventories and the supplier's willingness to adjust quantities flexibly. It may be worthwhile to assume added purchase costs in order to achieve faster turnover of inventory and total capital.

*Control replacement parts.* Too often these stocks are established mechanically on a percentage basis. For example, if a thousand products are being built for finished stock, a figure of 5 or 10 per cent is added for replacement parts. Such stocks also become catch-alls for production overruns. The amount of capital that can be tied up in replacement parts for a long time makes a regular recheck essential. ♦

## Don't Worry About Worrying

THE MAN with an occasional frown on his face has an investment in life, is more aware of his strengths and weaknesses than the unconcerned person, and is more hopeful for the future, say three University of Michigan researchers. Their findings—based on a study of nearly 2500 families for the Joint Commission on Mental Illness and Health—are reported in the book, *Americans View Their Mental Health*.

Happy people worry more than others do, the study found. For instance, college graduates rank well above average in their over-all happiness and in their marital and job satisfaction. Yet, because their hopes are often higher and their world outlook wider than those who have received less education, they are more likely to recognize personal shortcomings—and to worry about them more.



# Planning Your Executive Career



By Harry R. Knudson and Wendell L. French

*Condensed from Business Review*

**A**N EXECUTIVE has a sizable investment in his career. If he made a comparable investment in the stock market without a good deal of thought and planning, he would be considered capricious. Yet it is the rare executive who takes time to reflect upon how he is doing, where he is professionally, where he wishes to go, and how to get there.

Career planning is inherently nebulous and personal; there is no precise formula for determining the best way to do it. However, there are several guidelines that can be of help.

## **Determining Objectives**

The initial and often most important step in career planning is to

establish, as precisely as possible, both personal and professional objectives. In undertaking this task, the executive should keep in mind these suggestions:

- Be completely honest. Rationalizing, projecting, or "glossing over" deficiencies are ineffective procedures.
- Be specific. High-sounding platitudes like "happiness in life" or "economic and social maturity" make good conversation, but they are not valid objectives in career planning.
- If several objectives are evident, determine which one is primary. Otherwise, attempts to achieve several objectives concurrently may prove frustrating.

*Business Review (February, 1961), College of Business Administration, University of Washington.*

- Project your aspirations. Objectives change as we mature. Determine which ones are to be accomplished in the next two-, five-, or ten-year periods.

- Discuss objectives with family or close friends. A trusted confidant can help clarify your thinking.

Personal and professional objectives may of course be closely related. The more they are compatible, the less tension and conflict exist for the executive. If the two sets of goals are not in harmony, they must be reconciled.

### **Organizational Goals**

An executive should next examine the goals and objectives of his organization, for it is within this framework that he must achieve his own goals. Again, these two sets of goals must be compatible. In making this examination, the executive must also consider the attitudes and goals of his superior. Much as an executive would like to be judged by his own standards, he actually is judged by those of his superior—and his superior's judgment is affected by the executive's contribution to the organization's goals as the superior perceives them.

The executive must be aware not only of his immediate circumstances but also of the broader business world of which he is a part. This world is changing significantly and rapidly; the executive finds it increasingly difficult to keep on top of his job without conscious planning.

Furthermore, the standards by which his performance is evaluated are different from those of five or ten years ago. If he is not aware of these changes, he may find that he is using outdated managerial philosophies and tools while being judged by current ones.

### **Framework of Executive Activity**

Another aspect of career planning is concerned with day-to-day activities. Executives do different types of things at different times and in varying degrees, but often are only vaguely aware of *why* they do them. An executive must have a frame of reference within which he can evaluate his activities.

One such framework, devised by the Research Institute of America, places all activities into one of three categories. Some executive actions are *organization-dictated*—executives do them simply because they are affiliated with the Acme Corporation, for example, which has its goals and objectives, and the executives have certain responsibilities to Acme. Other activities are *job-dictated*: the duties of production manager as compared with those of sales manager, for instance. The remainder are *self-dictated*—activities initiated by the executive, usually for his own benefit—although they may be significantly related to his long-term effectiveness and success in the organization.

An executive who finds that most of his activities are organization-

dictated may be neglecting either his personal growth or his present performance; as a result, he may not be adequately prepared for promotion when that time comes. On the other hand, an executive who spends most of his time in self-dictated activities may be just getting by in his other responsibilities and may not even be considered for promotion.

An executive should not try to assign permanent values to his different activities. He cannot unconditionally say, for example, that organizational efforts are most important and thus should occupy 80 per cent of his time. His environment is too dynamic to permit this. But he can determine a tentative basis for distributing his activities that will hold for a reasonable period of time. His current position and his experience in it can help in this regard. If he is a top executive, for example, he may find that most of his responsibilities are to the organization as a whole; if he is new at his job, he may have to devote most of his efforts to mastering it. The vital issue is not so much what he does, but that he recognizes the pattern of his activities and the reasons and purposes for it.

#### **Requirements for Success**

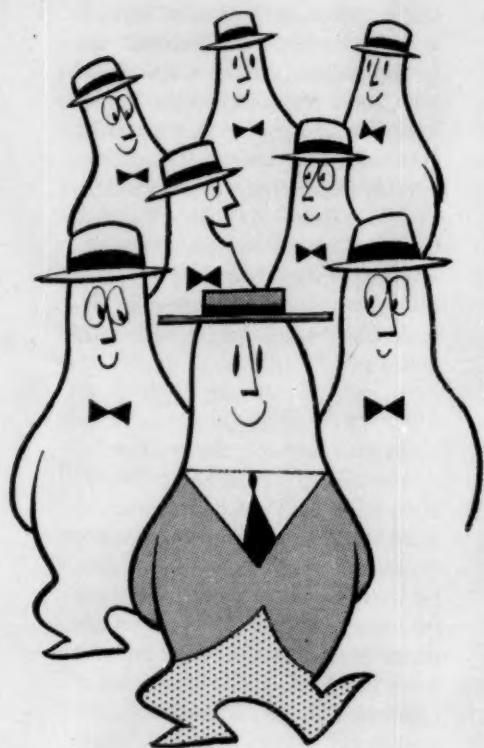
Just what does it take to be a successful business executive? Research on this question is less than conclusive, for two reasons: Great differences of opinion still exist con-

cerning what an "executive" actually is, and criteria for "success" are by no means standardized. However, some researchers have formulated lists of personal characteristics required for executive success. Among these writers are Donald K. David, Chris Argyris, Burleigh Gardner, Wilson Randle, and Richard Fear. From their lists, the executive can extract "the common denominator" which might be helpful to him.

#### **Compare Statistics**

An executive can also analyze his capabilities by comparing himself statistically with other executives, in order to get a more objective picture of himself. For example, how does his income compare with incomes of his former classmates? What attainments can he compare with those of other people his age? What level of responsibility has he reached professionally? How does his salary compare with those of other executives in similar jobs?

There are many other methods. Whichever he uses, the executive should now be able to complete the final phase in the career-planning program. When he has established his goals realistically; when he understands why he follows a particular pattern of activities; when he has measured his own capabilities—he should be able to compare his capabilities with his goals and determine his best course for achieving his objectives. ♦



■ James Menzies Black

## Farewell to the Happiness Boys

IN THE EARLY DAYS of radio, a couple of entertainers who began each of their programs by singing, "Oh, we're the interwoven pair, Billy Jones and Ernie Hare" spread so much good cheer among their listeners that they quickly became known as "the Happiness Boys."

This jolly pair dropped out of the public eye some time ago, but while their song was over, their melody lingered on—at least on the industrial scene. Starting in the 1930's, and reaching its full expression in the years following World War II, a management philosophy that em-

A MANAGEMENT REVIEW SPECIAL FEATURE

phasized a buttery kind of human relations was spreading cheer throughout industry, following the Happiness Boys' approach to every problem. Adjust to the group, keep the employees happy, avoid conflict—these were the watchwords; and groupthink, based on the notion that if two heads are better than one, a large collection of heads must be best of all, came into its own. Personnel experts busily pumped the milk of human kindness into industry's veins, and many executives believed that the one-big-happy-family concept of management was the golden road to achieving corporate goals.

During the lush days of the post-war sellers' market, it was difficult to prove them wrong. Industry's main preoccupation was with turning out goods; there were plenty of buyers who didn't argue too much about prices or quality. Labor unions looked forward to a generous wage increase and a bigger fringe package with the signing of each new contract.

### ***The Party's Over***

But this kind of complacently unreal industrial climate couldn't last forever—and it didn't. Today, competition is stiff; buyers are looking hard at prices and quality; the industries of Europe and Asia are giving us some hard wallops in the world markets, and in many cases beating us on our own terms right here at home. And, of course,

there's Soviet Russia, making no bones about the fact that they aim to bury us on the economic front—and directing their efforts toward that end with the dedicated single-mindedness that a totalitarian state can command.

The United States, in short, is smack in the middle of an all-out economic war. U.S. companies must not only compete with each other, but must contend with the low-wage, technologically advanced economies of many foreign countries—and this means that no company can afford to carry the fat of inefficiencies if it hopes to keep its customers coming back for more.

### ***Theories that Didn't Pan Out***

Faced with these problems, management has had to abandon the philosophies that have proved inadequate for operating in an increasingly competitive market—chief among them, the human-relations philosophy of industry's own "Happiness Boys." For many of the cherished assumptions of the Happiness Boys have proved to be incorrect, unrealistic, or at least unsubstantiated. It was originally believed, for example, that high morale leads directly to higher productivity, but substantial research has failed to prove anything of the sort. Similarly, as Warren G. Bennis has pointed out in the *Harvard Business Review*, other research findings "have challenged some of the basic assumptions of the human

relations model—for example, whether attention to group process factors leads to greater efficiency of group operations, whether the leader who attempts to get close to the men is a more efficient leader, and whether the leader can or should avoid hostile and aggressive attitudes directed toward him by his men.”

Obviously, industry is still concerned with human relations—but not as an end in itself.

### ***A Philosophy for the Sixties***

And so, as the Happiness Boys limp off into the sunset, their bright but tattered banners dragging behind them, a new and more realistic philosophy has begun to spread throughout industry. It is by no means an “anti-human” philosophy; in many ways, it takes far more cognizance of the realities of human nature and human dignity than did any of the credos of the Happiness Boys. It does not advocate a return to the sweatshop and the sixty-hour week, but it believes that, in addition to the company’s responsibility to its employees, the employees also have a responsibility to put in a fair day’s work for the wages they are paid. It does not abandon the idea of increasing job satisfaction, but it places equal stress on increasing job efficiency. It does not “put dollars before people,” but it recognizes the importance of dissuading people from perpetuating economically foolish practices that will jeo-

pardize their jobs, their standard of living, and the economic system in which they, no less than the titans of industry, have an overriding stake.

This new philosophy drops the condescension and manipulation implicit in the Happiness Boys’ approach and gets back to hard realities. It recognizes, as the Happiness Boys’ approach did not, the dignity of the individual—and the fact that it is beneath his dignity to be treated like a slightly backward child who is not willing to pull his own weight and earn his own keep.

It recognizes, in short, that the individual and the organization have a common interest in the successful operation of the company and the economy—but it also recognizes that the basic goals of the individual and those of organization are not the same, and never will be; just as the organization cannot presume to win the undying love and unquestioning loyalty of the worker, so the worker cannot expect the organization to work exclusively for the satisfaction of his personal desires and psychological needs.

### ***What Makes “Job Security”?***

This new philosophy is evident in many aspects of company operations. Management development, training, communications, collective bargaining—all reflect the growing emphasis on the competitive facts of life.



On the labor front, for example, Roger Blough, U.S. Steel's chairman of the board, laid it on the line in a nationwide telecast after the settlement of the 1959 steel strike:

Now, here is a ship which has brought a consignment of steel across the ocean and up the St. Lawrence Seaway to Cleveland. This foreign-made steel was sold to a customer in Cleveland for \$118 per ton—which is \$55 a ton below the price that an American steel mill, right here in Cleveland, must get for the same product. And this, of course, is only one among scores of vessels which are constantly unloading foreign-made steel products at American ports for American uses.

How can these products—shipped thousands of miles across the seas—undersell our own right here in the shadow of America's steel mills? Basically, the answer lies in the fact that the wages of American steelworkers are from three to seven times as much as steelworkers get abroad.

There was a time when American steel mills could overcome the handicap of high payroll costs because of their technological advantages, the U.S. Steel chairman observed, but that time has passed; today, foreign plants have facilities just as efficient as our own, and the job security of the steelworkers depends in great measure on their own actions. He minced no words in pointing out that the steel industry must be allowed to make full use of better machines and more efficient methods, and that it must be allowed to end stagnating work practices that reduce the industry's

productivity and thus endanger the very jobs that organized labor seeks to protect.

### ***Softening the Impact***

Although this is not a viewpoint that is likely to win the unanimous approval of union leaders, there is really no argument that can overcome the hard logic of Mr. Blough's contention. It is neither humane nor sensible to stand by quietly while workers price themselves and their industry out of the market. Furthermore, although dislocations in the work force occur—and some of them are unquestionably painful—employment opportunities are widened and diversified by automation and greater mechanical efficiency. And the impact of temporary technological unemployment can be softened, as Mr. Blough made clear:

But ending unnecessary work does not mean that the men who performed that work must necessarily be laid off. On the contrary, about a hundred thousand jobs open up in the steel industry every year as employees voluntarily leave work for personal reasons; and these jobs must be filled either by retraining experienced steelworkers moved from other jobs, or by hiring and training new and inexperienced people. So there is little reason why any steelworker should fail to help in an effort to get the work done in the best possible way. He has everything to gain by so doing. To demonstrate this, let me point out that today the steel industry has the capacity to produce more

ingot tons of steel than it has ever been able to sell in the peak year of demand, and if, by strengthening its competitive position, it could sell even half of this available tonnage, it would provide more than a hundred thousand new full-time jobs.

### ***The Training Job Ahead***

These words suggest the importance of another aspect of the new philosophy: industrial training. It is now being recognized, by responsible labor groups as well as by management, that it helps no one to perpetuate outmoded, inefficient, and unnecessary jobs and job methods. If operating inefficiencies are continued on the ground that they maintain employment, the ability of our industries to compete in domestic and world markets will be lessened, our total economy will be weakened, and the net result will be fewer rather than more jobs in the not-very-long run.

This means that a substantial portion of the work force will have to be retrained during the next decade to fill the new positions that will be necessitated by automation and increased mechanization. The skills of millions of employees will have to be upgraded to qualify them to undertake the more complicated assignments—especially in maintenance—that automation will create, and millions of unskilled or semiskilled workers will have to be trained to make the shift to new jobs when their old ones have been made obsolete.

The magnitude of this training task is clear from a look at the statistics that forecast the revolutionary growth and change of the American work force during the next decade. By 1970, economists predict, we will be turning out 750 billion dollars' worth of goods—50 per cent more than today—with an estimated work force of 87 million, only 18 per cent larger than today's. Moreover, there will be sharp changes in the composition of the work force: There will be 6.4 million more workers under 25 years of age, 1.8 million more between 25 and 35 years old, 5.5 million more over 45, and an actual *decline* in the number of workers between 35 and 44.

### ***Managers Needed***

The implications of these figures are clear: With a much larger percentage of the work force nearing retirement age or under 25 years of age, there will be a pressing need to train younger and inexperienced workers to handle the supervisory and middle-management positions now held primarily by men between 25 and 45 (and, to a large extent, by those between 35 and 45)—positions in which they will be sorely needed.

This means that industry faces a tremendous training job, both to upgrade the skills of workers and to train many of them to handle responsible positions. It means that the emphasis in training and man-

agement education will necessarily shift from human relations to the cold facts and skills necessary for the new technology. It means that, in industrial education as in general education, we can no longer afford to neglect the hard disciplines in favor of a "life-adjustment" or "people-centered" approach — unless we are content to lose our economic and political leadership in the free world.

#### **A Line-Management Job**

This won't be just a job for the training "experts," either; line management will assume an ever-increasing responsibility for every phase of training. This is only to be expected; after all, executives and supervisors have a first-hand knowledge of operational problems, and they are responsible for putting the company's plans for the future into effect. They know—or should know—the skills and abilities that employees must have to meet tomorrow's performance standards. As one labor-relations expert put it: "The job is complex, and as yet we have only identified the problem. However, a supervisor must have intimate knowledge of each of his subordinates to make sure the company's training program is geared to fit that employee's personal needs. Take the maintenance worker in a mechanized factory. He will probably need new skills and new combinations of skills that are not presently covered in the tradi-

tional job description of his trade. For instance, five years from now the electrician, or the plumber, or the machinist may have to have a knowledge of physics, hydraulics, mathematics, or other related subjects to do his work. Therefore, the man who supervises employees of this kind must make certain that their job descriptions keep pace with the duties required of them. He must also look ahead to be sure that they are receiving every opportunity, through training on the job and through in-plant or outside courses, to keep pace with their job descriptions."

#### **Development Without Frills**

In addition to training to upgrade job skills and keep them current, it becomes evident that programs in supervisory and management development must be geared to the specific needs of the persons who are asked to direct and control the changes that lie ahead. The meaning of the competitive decade that we are entering is very clear to management, and it will certainly have a heavy impact on executive and supervisory educational programs. A business magazine recently reported this remark of the president of one large American corporation: "We are bringing management training back to the actualities of industrial life. We are tired of pretentious programs, of exaggerated claims, and of a mushrooming of executive-development

programs to a point where they have become a nuisance."

His views reflect a growing management opinion. This doesn't mean that companies will lessen their effort to provide sound executive and supervisory training for their people—in fact, they will step up the pace—but it does mean that they will be much more selective in choosing participants and much more critical in judging results. A training executive will have to be fully prepared to answer the question, "How will the training program that you suggest help the supervisor do his job, or how does it prepare him to accept higher responsibility?" before he wins approval for his recommendations. And his answers must be specific and convincing. What's more, the egalitarian philosophy that in the past has had such a marked influence on executive and supervisory training is being replaced with a much more realistic point of view.

#### ***Fair-Haired Boys***

"Certainly, we have fair-haired boys who are slated for promotion," said an industrial-relations director at a recent personnel conference, "and we make no secret of who they are. Other supervisors will simply have to accept the fact that some people have more ability than others. Of course, we have an obligation to give everybody an equal chance to be a fair-haired boy, but we also have an overriding obliga-

tion to fill key jobs with the best men available. The idea that everybody can be trained to be a leader is just so much baloney—and the truth is, everybody knows it. We think that this approach actually builds better employee relations all around. If employees know that we are in a real, competitive fight, and that their jobs depend on the outcome, they want the best men in the spots where they can do the most good."

#### ***A Swing of the Pendulum***

This attitude represents a considerable swing in the pendulum of human-relations thinking. It probably wouldn't have pleased the Happiness Boys, but the fact that some persons are more competent or more intelligent than their associates cannot be denied, and any man who proves he is more capable than others should be moved into a position where his demonstrated ability will do the most to help the organization as a whole.

This common-sense notion is becoming the basis of management education, and it will have far-reaching and wholesome effects. To an ever-increasing extent, job applicants will be hired, not simply because they are qualified to do an immediate job, but because they have the education, intelligence, and potential skills to be trained for more complicated assignments in the future. Seniority will decline in importance as a factor in deter-

mining a man's promotability; in a highly technical industrial society with its heavy emphasis on skills, competent employees will look to their own abilities to assure their progress. Management will insist with great firmness that the company must have the final right to decide who will be trained to accept greater responsibility.

Recently, one of the large electric companies made it quite clear to its union during collective bargaining sessions that, although it intended to provide training programs that would expand the skills and competence of its workers, management would not share its power to decide who would be trained and how. The company's criteria were boldly stated: "Individuals will be selected for training on the basis of skills and aptitudes and willingness and ability to prepare for new opportunities."

This formula of selection is a direct challenge to supervisors and to executives at every level. For they are responsible for the selection of promotable employees, and they will be responsible for much of the training. Furthermore, they will be working on much more intimate terms with employees than they have in the past; working groups will tend to be small and comprised of specialists. Stress will be on team accomplishment, and it will be up to the supervisor to coordinate the activities of experts who in many cases may be far more

knowledgeable in their own fields than he is.

### ***Guides to Management Education***

In order to make certain that management-development programs are adequate to meet the needs of their supervisors and officers, many managements are re-evaluating their executive educational programs. Each company's plan of management development must, of course, be designed to fit its particular needs, but there are certain principles that are useful in making this appraisal. They may be listed as follows:

1. Don't rely too much on data produced by other companies or by universities in developing your own management-development plans. This doesn't mean those data are incorrect, but they may not apply. Because a program works somewhere else is no sign that it is either practical or appropriate for your plant.

2. Keep in mind that management development is an instrument to add efficiency to the selection of competitive leadership. The road to promotion should be open to everybody, but it's up to the individual to make the effort. Not everyone can make the grade, but a man matures only as he knows his capabilities and limitations, and you do no one a favor by trying to protect him from the consequence of his own deficiencies.

3. Press toward the objectives



of management development, and don't be too concerned with techniques. Techniques are only tools to help you reach your goals.

4. In instruction, use generalities as a background against which specifics become meaningful. Remember that education is attained by hard mental discipline. There is no easy road.

5. Define your goals in plain, understandable English, avoiding pompous, pseudoscientific, sociological jargon.

#### **Goals of the Program**

In this kind of program there is no room for fluff. Management's effort must be entirely disciplined. Total executive participation is essential, for in the competitive years that are coming up, management development and employee training cannot be delegated to specialists and then forgotten. It will require the full-time direction of a company's guiding officers and the support of every manager.

Operating management wants and will back a program that:

- Establishes a better understanding between all levels of management, between superior and subordinate, between departments, and between the supervision and rank-and-file employees.
- Helps an executive to recognize deficiencies in his own performance and instills in him a desire to eliminate them.
- Reveals operating problems beyond the control of a particular department or executive—problems that demand action from top management for proper solution.
- Uncovers men of ability whose talents might otherwise have been ignored.
- Isolates and eliminates persons whose incompetence, indifference, or lack of initiative endangers a company's competitiveness.
- Encourages interdepartmental transfer of competent personnel.
- Gives a manager a clearer understanding of and a keener insight into his responsibility for training employees and appraising their abilities.
- Stresses an executive's obligations to advise and counsel his subordinates so they may develop their talents fully.
- Improves staff and line relationships.
- Indicates needs for policy changes.
- Attracts ambitious and capable job applicants (college graduates, technicians, skilled workers) who come to the company because they know they will receive every opportunity to demonstrate their competence.
- Guarantees that, in addition to having technical knowledge of his particular duties, an executive will have a deep under-



standing of management principles and a willingness to assume his full responsibilities in an increasingly complex and competitive economy.

### **Farewell to the Happiness Boys**

This approach may drop human relations to lower case—but what's bad about that? More and more managements are accepting the fact that a business enterprise is not the ideal place for group therapy and life adjustment—and that, given half a chance, the vast majority of executives and employees are able and willing to stand on their own two feet and live and work as men, not as wards of the organization.

This, then, is farewell to the Happiness Boys—the finish of interwoven togetherness. Under this new, more demanding philosophy, management will no longer shoulder all the responsibility for the company's success, while employees are

protected from the consequence of low-quality work, inefficiency, and indifference because they have somehow confused the “right to work” with the “right to draw a paycheck.”

Naturally, nothing happens overnight. But we are moving in the right direction—the only direction in which we can move if we expect to survive. George Kennan summed up the situation when he pointed out that if a determined, aggressive people are pitted against a fat, lazy, complacent people in a battle of survival, it doesn't take much intelligence to know who will come out on top.

Events of the last few years have shaken us out of our complacency. If we can shed the fat of inefficiencies, we have an industrial machine whose productivity can meet the competitive challenge of any other economy. But it's up to management to lead the way. ♦

### **BACK ISSUES OF MANAGEMENT REVIEW**

REPRINTS of early editions of *MANAGEMENT REVIEW* will soon be available. This fall, Volumes 1-12 (1914-1923) will be obtainable from Kraus Reprint Corporation, at a price of \$135 for the paperbound set and \$154.80 for the clothbound set. Single volumes will be available at \$14.50 each, paperbound.

These prices apply to orders received by Kraus Reprint Corporation before August 1, 1961. After that date, prices will be approximately 20 per cent higher. AMA members are entitled to receive a discount of 10 per cent. A detailed prospectus is available from Kraus Reprint Corporation, 16 East 46 Street, New York 17, N. Y.



## Does Advertising Really Pay?

*Condensed from Printers' Ink*

**E**XECUTIVES TODAY are not spending money for anything that can't be justified in terms of dollars and cents. In quest of reduced costs, they want to know the impact on sales of every nickel—including what's spent on advertising.

Can advertising's contribution be determined? Can an ad's effectiveness be measured before it appears? Recent research by some of the nation's top corporations indicates that methods may soon be available for measuring just how much advertising does pay.

What's more, some companies want to be sure that their advertising research is giving them the right answers. The result: research on research.

### **Profit Pinch**

A particularly acute profit pinch in its industry—chemicals—prompted Du Pont recently to aim for precision measurement of ad effect on sales. The project will try to answer questions concerning:

*Allocation of funds*—how much to spend for advertising and how to

*Printers' Ink* (February 24, 1961), © 1961 by Printers' Ink Publishing Corp.

allocate funds for specific markets, for product advertising, for departmental advertising, and for total company advertising;

*Timing and placement of advertising*—which medium to use, which vehicle within each medium, and what kind of schedule within that vehicle;

*What to say and how to say it*—which advertising themes to use, what kind of copy (and why), and which ways to communicate the ad message to the reader.

Du Pont will allocate different sums of ad money to different industrial markets, in order to find relationships between advertising and sales. Although Du Pont recognizes the project is risky, it feels that the few sales it may lose will be more than offset by the savings achieved by spending accurately for advertising.

### **Running a Project**

Dr. Malcolm McNiven, who heads the Du Pont research department, has some suggestions on running a research project of this sort:

- When constructing a marketing plan, build in from the very beginning informational feedback you'll need for accurate management decisions during the plan's life.

- When judging the effects of advertising, consider all the marketing forces in operation.

- Recognize the need for close and accurate statistical control; use professionals.

- Make sure research isn't wasted. Before any research is planned, determine what decisions will be made on the basis of the results.

- Don't try to save money if this will hurt the quality of the data or analysis.

- Take an experimental approach and follow through.

United States Steel has been trying for some time to test the effectiveness of its immense advertising program. U. S. Steel's marketing department first establishes advertising objectives for every product and campaign—statements of advertising's specific, proposed contribution toward achieving the over-all marketing goal.

It then builds into an ad program specific ways to gauge the program's effect. In many cases, it uses research to determine, first, the audience's knowledge or attitude before the advertising runs, then, later, how much the advertising has increased knowledge about the products or has changed attitudes.

### **Industrial Ads**

The Scott Paper Co. can usually judge the fruitfulness of its consumer promotion. But not so with industrial products, according to Bert Roen, Scott's industrial marketing manager. This September, however, the company plans to have some definitive information on the effectiveness of advertising for its industrial toweling products. Scott

has been running a test in eleven cities for some six months to pinpoint advertising's contribution to industry's awareness of its industrial packaged-products division. The budget is \$500,000.

Scott is particularly interested in isolating the effects of space advertising, direct mail, and salesmen incentives. In the eleven cities—all of which have roughly the same industrial activity, population, and size—the company has tested eleven different types of promotion, all within the same format. The ads have been running in two McGraw-Hill weeklies and several monthlies.

#### **Sample Testing**

By testing samples of readers, McGraw-Hill and other participating publishers will help evaluate just how effective the different ad methods are in constructing and strengthening readers' recognition patterns. And, Scott hopes, the publishers will provide more information about the roles of magazine promotion and direct mail in building familiarity.

What will Scott do when it gets the final results in September? It will adjust its advertising approach to include the most effective combinations of promotion possible for the industrial division. "This could mean more reliance on media, or

perhaps a media-incentive program, possibly intensified efforts with direct mail," said Roen. "Most of all, we expect to have our study pay us back with dividends."

#### **Electronic Aid**

An important assist in creating effective ads will be coming soon from electronics. Recently, Monsanto Chemical Co. agreed to loan the Industrial Advertising Research Institute, Princeton, N. J., one of its giant computers, at a cost to the chemical concern of some three hundred dollars per hour. According to Dr. Joseph Bachelder, head of the Institute, the machine will facilitate the processing of extensive readership samples, a task previously requiring a prohibitive number of man-hours.

One question the Institute will try to answer is this: What ad factors contribute to high readership? The computer will be programed with a variety of industrial data, sales results, and other marketing factors, and hopefully will yield, on a scientific level, the effective elements of a good advertisement. The findings may also give more clues to the relationship between good advertising and communication. And from there, the computer may be able to trace a path to buying habits. ♦

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WHEN one hundred new employees are added to a manufacturing company's payroll, reports the Associated Industries of Cleveland, the community receives 427 more residents, 131 more households, and 187 more cars.

**The Secretary of Labor reviews some of the problems of automation—and the key to their solution . . .**

## CHALLENGES OF THE *Second Industrial Revolution*

**By Arthur J. Goldberg**

*Condensed from The New York Times Magazine*

**T**ECHNOLOGICAL CHANGE—"automation"—is becoming so pronounced that some economists have labeled it "a second industrial revolution." This latest phase in the centuries-long search for ways to replace human energy with mechanical or other forms of energy has made possible fully automatic factories and offices. But it has also raised the specter of severe dislocation in the work force.

One issue is present in some form in every major industrial negotiation: How can the necessity for continued increases in productivity, based upon labor-saving techniques, be met without causing individual hardship and widespread unemployment?

There is no way to measure the

*The New York Times Magazine (April 2, 1961), © 1961 by The New York Times Company.*

amount of unemployment due strictly to technological change. We do know that manufacturing employment lost 900,000 jobs in 1960, while total unemployment was making records in every one of the first ten months. Technological attrition in industrial employment is becoming high. And one of the distressing aspects of much of current unemployment is its long-term nature: 647,000 of the unemployed in January had been looking for work for 27 weeks or longer.

The promise of automation and the broad task of solving its problems is acknowledged by all Americans. But the question of means may often become divisive.

Labor and management have, in the past two or three years, devel-

oped a realistic technique of referral: They refer the problems raised by automation away from, rather than toward, the bargaining table. The device most frequently used is the special committee, sometimes including public members, which operates away from the bargaining arena's pressures, deadlines, and crosscurrents. Such committees are now at work in a number of industries, including steel, meat packing, and construction. There is also the government-created Presidential Railroad Commission, with labor, management, and public members studying the complex problems of work rules and practices in that industry.

#### **Plan in Advance**

Can this technique of study and recommendation work? While it is an example of good will and good sense, it is also an indication of failure in the past to anticipate the impact of automation. These committees are substantially *ex post facto*—often created after strikes or after the urgent need for them becomes clear. But studies made by the Department of Labor show that when labor and management in particular industries plan *in advance* for technological change and measure out its effect beforehand, its impact upon employment is greatly lessened and its benefit to the industry is enlarged.

One of the nation's largest manufacturers of radios, phonographs,

and television sets, for example, switched to automatic assembly a few years ago. Union officials were consulted in advance, and changes and procedures were established for retaining some workers, reassigning others, upgrading still others.

Not a single job was lost. Pay for some of the new automated jobs increased by 5 to 15 per cent. Incentive pay systems were established in other, older jobs whose character had been transformed. The transition was orderly and effective.

The same story has been repeated in a large life insurance company, a large bakery, an oil refinery, and other companies. In these companies, several important factors made automation a human and mechanical success:

- An adequate lead time between the decision to automate and the actual changeover.
- Thorough consultation between labor and management concerning employee displacement and job changes.
- Open and honest reporting to the people directly affected.
- Timing of the change to coincide with a period of employment or market expansion.

#### **Need for Training**

The need for training and retraining the work force exists across the board in American life. No employer or employee is exempt from the need, and each ignores it at his own cost. However, there can be no one



master plan for raising the skills of a work force as varied and diverse as ours. The situation in each community and within each industry requires its own devices and tools. What each situation does have in common is the need for maximum cooperation among education, business, and labor.

#### **A Cooperative Effort**

An example is provided by recent developments in Hazelton, Pa., where unemployment has been high because of the decline of the anthracite coal industry. In 1958, a corporation agreed to take over an abandoned railroad roundhouse that had been purchased by the Hazelton Industrial Development Corporation and converted to modern industrial use. Last spring, the company found itself desperately short of skilled machinists; only two of forty applicants met the strict technical standards the work required. The company considered moving.

At that juncture, representatives of the Development Corporation, the Chamber of Commerce, the State Employment Service, and the U.S. Department of Labor's Bureau of Apprenticeship and Training met together. The result was a community-wide training program for machinists. Classes were given in the Hazelton Vocational School, and pupils included workers from the company as well as unemployed workers from the area.

The State of Pennsylvania pro-

vided additional funds for equipment and facilities needed by the public school. A six-man labor-and-management committee was formed to conduct the program. The Chamber of Commerce studied the skills of the work force in the Hazelton area, and as a result two classes in supervisory development were started on the Hazelton campus of Pennsylvania State University this past January. Courses in engineering, drafting, and shop mathematics have been recently added.

#### **The Essential Element**

The study of automation leads us to an essential element in American life: the public responsibility that resides within private decision in a free economy. It points up for the businessman the fact that the conduct of his business influences not only the lives and welfare of his employees, but the national welfare; for labor leaders, that constructive and creative planning must replace opposition based on short-term considerations; and for the public, that the cost of freedom in economic life is responsibility.

Enlightened businessmen, far-sighted labor leaders, and a responsible public can, together, make automation a general blessing. The policies and programs that will be emerging from industrial and national committees should be carefully watched by all Americans. They could well be the blueprint for a better world. ♦

# What Is an Executive Worth?

By Arch Patton

*Condensed from Harvard Business Review*

THE STARTING SALARY for any vice-president in one large company was \$25,000. It made no difference that one vice-president had the second most important job in the company and that another was little more than an office boy for the retiring chairman. Both were vice-presidents; both, therefore, started even.

This example raises a question perplexing many corporations: What is an executive worth? The answer does not lie in determining whether he reports to the president or a vice-president, or how much paper work he processes. A critical part of it lies, rather, in assessing the decisions that he makes or influences that affect company profits.

Such an assessment should con-



sider what the executive really does, not what a job description or organization chart says he must do. The difference is frequently profound: Many an executive abdicates his responsibilities to subordinates, or passes them along to his peers by failure to act himself.

It is particularly difficult to judge the executive's contribution beyond his functional responsibilities. An executive, for example, whose

*Harvard Business Review* (March-April, 1961). © 1961 by the President and Fellows of Harvard College

strengths supplement those of his company's president may frequently be used by the president as a sounding board in reaching decisions on broad policies. He may have great influence over top-level decisions because of his proven judgment, or his personal "chemistry" with the president. Frequently, this sounding-board responsibility is worth more to the company than the executive's traditional functional responsibilities. Yet many executive-evaluation programs overlook this intangible, informal policy support.

#### **Decision-Making**

Executive decisions cannot be put on a scale, weighed for their importance, and assigned some numerical value. But the decision-making *process* can be examined in detail, and an evaluation made of each executive's contribution to the total process.

Obviously, decisions that are made are more valuable than decisions that are merely influenced. The sales manager who can only recommend a price change does not affect the profit-and-loss statement until someone decides to make the change. Often, however, influencing big decisions is more important than making small ones.

It is relatively easy to judge who makes what decisions and to distinguish the important ones from the less important. It is much harder to judge who influences which decisions, and to what degree. The

formal organizational structure, for example, may call for the sales manager to evaluate the critical market reaction to a proposed price change; but the treasurer actually may have far greater influence with the executive who makes the decision. Thus, the "informal" organization frequently affects decisions more than is recognized.

#### **Other Factors**

Many factors, of course, will influence the compensation paid an executive. Top-management compensation philosophies vary considerably. One president may buy executive talent the way he buys coal: at the lowest possible price, offering little if any premium for quality.

At the other extreme, the chief executive may regard quality of performance as a bargain at any price. One philosophy regards compensation as a cost, the other sees it as a motivational device. Compensation may be further affected by company size, industry scales, even the fact that one executive is a company officer while another is not.

In the final analysis, however, an executive is worth what his superiors believe he is worth. The market for his skills has a bearing on this valuation, as does his "trading position." But it is primarily the executive's skill, aggressiveness, and leadership qualities that make the difference. ♦

# Organizing for numerical control

*Condensed from Steel*

**N**UMERICAL CONTROL of manufacturing processes calls for a new way of doing things. Traditional administrative and production practices must be approached differently to realize the technique's full savings potential. But if it is used properly, it can pay for itself in a third less time than it takes to amortize regular machining equipment.

If you are considering numerical control, don't forget that patterns of cost allocation will be changed considerably. Many costs once charged to direct production will shift to indirect burden areas. Total maintenance costs may be higher, while tool design and preparation costs will be pared drastically—often more than 70 per cent.

J. B. Rankin, numerical-control co-ordinator, Convair Division of General Dynamics Corp., says: "It's difficult to realize that in one machine you may have the capabilities of five." Suggests Ray Nymberg, who acts as numerical control co-ordinator at Bendix Products Division, Bendix Corp.: "To properly compare and evaluate numerical-control production, management

must look at the final unit cost of a job, not just at specific costs of some phase of the production process. The traditional costs ratios simply don't apply to this method of machining."

His division adopted numerical control in 1954. It now has six systems in operation and two more on order. Mr. Nymberg figures that total production savings have averaged 30 to 40 per cent. For some jobs, better than 90 per cent savings have been achieved. Although overhead rates are higher per machine, Mr. Nymberg points out that productivity is higher too. He figures on three to five times more output from point-to-point controlled equipment and six to ten times more output from continuous-path systems.

## **Co-ordination**

Before getting into detailed changes, management should first appoint one person to head up the numerical-control project. Most firms call him a co-ordinator, although that's seldom his formal title. He seems to function best at the staff level where he can com-

Steel (March 27, 1961), © 1961 by The Penton Publishing Company.

municate with top management and operating departments in the company.

A co-ordinator needs freedom to plan and develop a numerical-control program. He must have authority to deal with key department heads and to quell empire builders. Mr. Nymberg thinks engineering training and administrative experience make a good background because the co-ordinator must analyze proposals ranging from complicated electronic systems to modern accounting procedures.

The co-ordinator also needs some sort of advisory group made up of representatives from different departments. Mr. Rankin suggests that each department involved appoint one man through whom all numerical control activity and information will flow. "This plan sets up the initial structure and reduces confusion," he says. "It also sets the stage for allowing each department to handle its own problems. As the program expands, these key people will be in a position to provide more support."

#### ***Need for Flexibility***

Attitude is as important as aptitude in selecting men to work with numerical control. "We want people who never learned or who can forget the 'old way' of doing things; the 'old way' is just too slow," states Mr. Nymberg. The personnel department is apt to find that job classifications and wage and salary

administration need revision when it comes to selecting and training machine operators and maintenance men.

#### ***Machines Run Machines***

Since the control equipment (instead of the man) runs the machine, the operator tends to become a set-up man and inspector. The plant electrician must function as an electronics expert to repair control systems. It's a sometimes difficult concept for older, highly skilled workers to accept. If less complicated systems are used, regular machinists and maintenance men often can be trained to do the job adequately. Many firms train apprentices. Maintenance men, of course, should get a thorough education from the numerical-control system's manufacturer. Where possible, use simple aptitude tests to help pick workers who demonstrate interest in such work. Try to avoid setting permanent job classifications for at least six months so you can find out what level of skills you'll need.

Failure to understand the changes numerical control makes in accounting, sales, and purchasing offices can dilute its effectiveness. The numerical-control co-ordinator must work with accounting to develop forms and records for properly allocating the new types of costs generated. Tape, for example, is generally considered a tool. Its processing comes under direct labor

tooling costs and the raw tape is billed as tooling material.

Accounting must also understand how budgets and departmental fund allocations can be distorted by numerical control. Tooling costs will be lower, but the department that handles programing will have a much higher workload and higher costs. As product design begins to incorporate changes to take advantage of numerical control, several parts will be integrated into a single-part design. "Eventually, this will be felt by a reduced workload in such indirect areas as manufacturing control, material handling, inspection, and assembly," predicts Mr. Rankin.

#### ***Sales and Purchasing***

"Train your salesmen so they know how numerical control works and what kinds of parts it can handle best," says Mr. Nymberg. Then they can more quickly determine whether a customer's job can be done with numerical control or with conventional equipment. Instead of just sending back a sample part and waiting for a cost analysis, they may be able to suggest its analysis for either numerical control or conventional production methods. Salesmen must also learn to re-evaluate lead times and delivery times.

Purchasing faces a similar scheduling problem. Because numerical-control production is so fast, purchasing can't depend on traditional

lead times for quotations and delivery. Purchasing must be sure it can supply materials and replacement parts in a matter of hours, not days, if necessary.

#### ***Design and Tooling***

Part design, specifications, basic lines, and data are engineering areas most likely to be affected by numerical control. You may have to alter drafting formats so that various lines and data can be easily translated into numbers and symbols for processing and programing.

Tooling must be simple and accurate. Special reference and inspection standards will have to be established for tool design. Remember that the operator no longer can use his judgment on machining operations. Rake angle and flutes on cutting tools, for example, may have to be changed to compensate for preset production.

Programing is the payoff point, where all the information needed to operate the machine is collected and organized in numerical form so it can be translated onto tapes or cards. It's a highly skilled area that's not needed for conventional machining. It's also a high-cost item, because programmers usually have the equivalent of a college degree. They need extensive mechanical and processing backgrounds for point-to-point programing. Continuous path programing calls for people with applied mathematics and computer training. ♦



# EFFECTIVE CONTROL THROUGH RESPONSIBILITY REPORTING

■ K. S. Axelson

*Partner*

*Peat, Marwick, Mitchell & Co.*

THE BASIC CONCEPT of responsibility reporting is not new, but it has come into widespread use only in recent years. In the past, the need for independent external reporting overshadowed management's need for data by which to run the business; now, accounting is going beyond its older role to give management more aid in the decision-making process and in the control of operations.

This effort, which began nearly half a century ago, originally centered around inventory valuation and income measurement. Early cost-accounting techniques were aimed primarily at determining product costs for pricing decisions.

But pricing, vital though it is, is the responsibility of only a few managers.

Now operating data, once so closely held that their possession was almost a status symbol, are being shared at all levels of the organization. The newer accounting techniques are designed to serve all managers—and responsibility reporting represents a significant advance in making accounting a real tool of management.

## ***Keeping Pace with Growth***

What has caused the need for increasing amounts of information at all levels of management? The major reason, of course, is the ex-

A MANAGEMENT REVIEW SPECIAL FEATURE

pansion and diversification that many companies have experienced. A few years ago, for example, the chief executive of a middle-sized manufacturing company in New York State began to worry seriously about what his impending retirement was going to mean to his company.

A veteran of more than 40 years' service, he knew the company and its business intimately. Thanks to this knowledge, he had been able to build a profitable sales volume of some thirty million dollars annually without any organized procedures for sales forecasting, for production or inventory control, or for market or product research—and without any clear-cut division of authority among the group of long-service executives who surrounded him.

But among his potential successors there was not one who had grown up in the company and had his feel for the business. And there were signs—missed delivery dates, rising customer complaints, declining return on investment—that even the old-timers were having trouble keeping up with the company's growth. It was time, he realized, to substitute methods for men.

#### **Needed Information**

Many companies have faced similar problems, and a growing number of chief executives, like this one, are turning to a control system that gives each manager, from fore-

man to chairman, the information he needs to do his job well.

This system is responsibility reporting, an accounting technique that has come into prominence since World War II. In essence, it is a device for tying operating results directly to the organization chart. Costs and revenues are classified in terms of organizational units, rather than by product or by arbitrary account number, and results are reported both to the individual responsible for producing those costs and revenues (to help him plan and control his own operations) and to his superiors (to help them evaluate his performance).

#### **Elements of Control**

Under responsibility reporting, costs and income are first classified according to the individual who is responsible for their control, then further broken down by the nature of the expense or income. These classifications and subclassifications answer the questions: "Who incurred this cost or produced this income?" and "For what was this cost incurred, or by what was this income produced?" These are the basic elements of management control.

Reports like these do not answer some questions: "How much did a given product cost to produce?" "How profitable is a particular product?" or "What is the current value of product inventory?" But those questions can be answered by

recombining the cost and income figures that appear on the responsibility reports and summarizing them on supplemental reports for those concerned. Similarly, these basic reports can be translated into the totals that would appear on a corporate profit-and-loss statement.

#### **Uses of Responsibility Reporting**

Responsibility-reporting systems may be designed at various levels of sophistication. Some simply report costs, perhaps compared with the previous year's, without any attempt to measure them against a standard. Such figures have some value, but they are much less helpful than cost data that are compared with some reasonably valid yardstick. For this reason, a responsibility-reporting system works best when it is combined with a budget system or with standard costs and some system of work measurement.

Some companies use responsibility reporting only for cost control. As a cost-control technique, this type of reporting has major advantages over a system that allocates expenses on an arbitrary basis. It is particularly useful for the first-line supervisors, who control the majority of expense and should have the information that they need to do a good job.

Responsibility reporting pinpoints responsibility. It makes it easy for higher management to determine on an exception basis just where costs are out of line and who is to blame.

At the same time, it puts accurate cost information in the hands of the individual who is in the best position to take corrective action quickly. The result is likely to be cost-consciousness at lower levels of management, which provides a much more solid basis for efficient operation than do periodic waves of cost-cutting.

Furthermore, purely from an accounting standpoint, responsibility cost reports are relatively easy to design, provided organizational relationships and responsibilities are clearly defined. Some costs are harder to assign than others—for example, expenditures incurred by a service department that actually benefit an operating department—but most such problems can be solved by following the principle that the executive who authorized the expense should be charged with it.

#### **Including Income Figures**

Ideally, responsibility reporting should be applied to income as well as cost figures. In fact, many companies would deny that reporting aimed at cost control alone really deserves the name of responsibility reporting. That does not mean that the concept should be distorted into an artificial accounting system that attempts to put income responsibility on the shoulders of managers who are actually in a position to control only costs—by pretending, for example, that a production ex-

ecutive has responsibility for sales volume or prices.

However, companies that are organized on a divisional profit-center basis have found responsibility reporting of both costs and income an effective way to help executives who actually have profit-and-loss responsibility to control their operations. There are never many of these men—in many smaller companies, there is only one—but their decisions are so important to the company that they should have every aid an information system can give them.

#### **Technical Problems**

Responsibility reporting is more difficult for income than for costs. To cite only one of the problems that may arise, divisional transfer charges can be a barrier to assignment of profit responsibility. If one division of a watch company makes the works, another the case, and a third sells the product, how should the income from the final sale be divided? Is it fair for the selling division, which contributes the least, to get the lion's share of the profit?

If income is transferred back through divisions, on what basis should it be done? Some companies assume that end-product divisions buy components from producing divisions at a "fair market price," some at standard cost, some at standard cost plus an allowance for variances of manufacturing cost from standard, some at standard

cost plus a percentage that is designed to yield a fair return on investment for the producing division. Whatever the system, some one of the divisions is almost certain to regard it as unfair. And there is always the risk that divisional interests will be put ahead of those of the company as a whole.

Nevertheless, companies like Westinghouse Electric Corp. and H. J. Heinz Corp. that have genuine responsibility-reporting systems insist that the effort is worthwhile. They feel it has succeeded in keeping costs down and helping to make executives at all levels profit-minded.

#### **Installing the System**

The installation of a responsibility-reporting system starts with the organization chart. If the company doesn't have one, the first step is to develop one.

The organization chart and related position descriptions should be studied to make sure that every function has been clearly assigned to a single individual. The assignment of responsibility should be specific and clearly understood by all concerned. Responsibilities should not overlap—at least, not in terms of the cost and income items to be reported. Every logical grouping of activities at each management level should have a single supervisor, and no position should report to more than one supervisor. (If a single manager actually fills several

functions, each should be classified separately, and he should receive a separate report for each one.)

Responsibilities must be identified carefully if the system is to work. Is a plant manager to be held responsible for net profit? If the sales manager sets the prices, the central engineering department designs the product, the headquarters purchasing department does the buying, some end-product division determines the production levels, and the headquarters manufacturing organization assigns the actual production orders, it is obvious that vital functions affecting profit are outside his control.

#### **Other Responsibilities**

What is he responsible for, if not for profit? One way to answer that question is to determine the standard by which his performance is measured. Is it whether he turns out a good-quality product as economically as possible and in time to meet delivery schedules? If so, these are the items for which he should be held responsible.

Questions like these should be asked for every position in the organization. Sometimes they cannot be answered within the existing organizational structure, and reorganization is necessary before the design of a responsibility-reporting system can even begin. The real problems in responsibility reporting are likely to be organizational rather than accounting, and their resolution is

likely to be one of the major long-term benefits of the project.

#### **Classifying Costs**

The next step is to determine how costs will be classified. Categories should be set up so that costs and income can be recorded without detailed analysis, kept intact, and placed in logical groupings. Items should be recorded according to the lowest level of operations to which they can be assigned regularly, and each should be assigned to a single individual.

A basic principle of responsibility reporting is that all costs are controllable by somebody. That is even true of depreciation and taxes, where the test is: Who has authority to dispose of that cost and prevent it from recurring? One company, wrestling with the problem of whom to make responsible for depreciation, finally decided that only the board of directors had effective control over this expense. Most companies, however, have fixed this responsibility on someone at a lower level of the organization.

#### **Allocations and Prorations**

Costs should be assigned to the organizational unit to which they are directly related, so an expense charge can begin and end with the manager who authorized the expense. Ideally, there should be no allocations or prorations of any kind, except in supplemental analytical reports. This is not always

possible, but where allocations are necessary, the amount should always be based upon budgeted expenses, so an executive who is being held responsible for his results isn't suddenly thrown off balance by an unscheduled increase in home-office overhead. If much prorating of costs is necessary, it is likely to be a symptom that the company has failed to give individual executives undivided responsibility.

Sometimes a certain amount of ingenuity is required. One company, with stringent budgetary control, bases executive bonuses on the relationship between actual and budgeted results. This company had the problem of how to account for unusual expenses, like sales development for a new product and start-up costs for a new plant, without unfairly penalizing lower managers. Its solution was to add ten cents per unit to the inventory cost of each item produced and credit this sum to a special "president's kitty," from which allowances were made to offset nonrecurring expenses.

### **Flexibility**

The system must be flexible enough to meet actual operating conditions. In a decentralized company, for example, managers with profit-and-loss responsibility often demand the right to define the organizational structures for their own divisions. Even though this complicates the task of designing reports, and may make standardiza-

tion impossible, uniformity should give way to the real goal of the responsibility reporting system—the pinpointing of responsibility. A control system should be a tool, not a straitjacket; accounting should never be allowed to become the tail that wags the dog.

### **Guiding Principles**

The top executive who wants a responsibility-reporting system installed in his organization should see to it that the following principles are observed:

1. Results should be identified with the executive who is responsible for them.
2. Each executive should receive a statement reflecting only the results for which he is directly responsible. No expense allocations should be made that cannot be programmed in advance by the person who will be charged for them.
3. For management reporting purposes, subsidiary corporate entities should be ignored if they do not coincide with the actual management organization.
4. Reports should be designed so that statements for lower management levels can be added without altering the totals that appear on existing statements.
5. Reports should be detailed at the lower levels of management, with more and more summarization at increasingly higher levels.
6. Results should be compared with expected performance—in the



form of a budget, standard costs, or the like.

7. Results should be reported on an exception basis that highlights good and bad performance, so unsatisfactory results will be red-flagged to higher management's attention.

### A Proven Tool

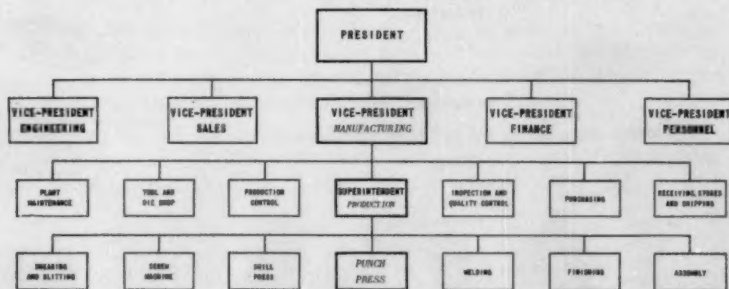
The development of accounting for management control, long retarded by the emphasis given to accounting's recording and book-keeping functions, has been rapid in the past few decades. Responsi-

bility reporting is generally accepted in regulated industries, where the standard accounts prepared to meet regulatory commission requirements are even further from being useful management control devices than are the traditional reports prepared by most companies. Now responsibility reporting is being adopted by a growing number of companies in other industries, where it has been proving its worth as a management tool that pinpoints responsibility and provides each manager with the information he needs to plan and control his own operations.

## RESPONSIBILITY REPORTING — HOW IT OPERATES

The sample reports on the following page illustrate how some of the key features of responsibility reporting might work in a "typical" manufacturing company. The organization chart (below) is the obvious starting point for an organization-oriented management reporting system. Each executive and supervisor on the chart has his own report, reflecting items of income and expense over which he has direct control. On the next page, a sample report for the punch-press department is shown, along with the associated reports for each succeeding higher level of organizational responsibility.

THE TYPICAL COMPANY ORGANIZATION CHART



# THE TYPICAL COMPANY INCOME AND EXPENSE STATEMENT

YEAR TO DATE		CURRENT MONTH	
Actual	Gain (Loss)	Actual	Gain (Loss)
\$1,010,000	\$ (30,000)	\$340,000	\$ (3,000)
1,347,500	( 9,000)	337,000	(8,200)
6,000	( 6,000)	(3,870)	1,870
\$ 350,000	\$ (30,000)	\$ 84,770	\$ (7,230)

## SELLING, GENERAL AND ADMINISTRATIVE

\$ 12,000	\$ 200
21,850	100
6,500	100
3,300	160
3,000	250
<u>49,650</u>	<u>650</u>
\$ 15,820	\$ (8,300)

## THE TYPICAL COMPANY

### MANUFACTURING

C. B. Hurnert, Vice-President, Manufacturing

May, 1961

### COST REPORT

YEAR TO DATE		CURRENT MONTH	
Actual	Gain (Loss)	Actual	Gain (Loss)
\$ 14,700	\$ 700	\$ 2,850	\$ 150
32,000	3,500	8,000	450
32,000	900	7,200	200
10,000	(1,200)	3,500	200
500,000	(11,200)	103,000	300
22,500	50	6,000	100
10,000	350	2,100	60
23,500	1,000	7,300	250
<u>970,500</u>	<u>\$ (6,000)</u>	<u>\$127,150</u>	<u>\$ 1,970</u>

## THE TYPICAL COMPANY

### PUNCHING DEPARTMENT

D. F. Colhart, Superintendent

May, 1961

### COST REPORT

YEAR TO DATE		CURRENT MONTH	
Actual	Gain (Loss)	Actual	Gain (Loss)
\$ 8,200	\$ 1,300	\$ 1,800	\$ 200
78,000	5,100	16,300	1,000
49,500	1,100	9,000	200
		11,000	200
		24,000	(2,000)
		6,000	400
		18,000	( 700)
		<u>30,000</u>	<u>1,400</u>
		<u>\$109,000</u>	<u>\$ 900</u>

## THE TYPICAL COMPANY

### PUNCH PRESS DEPARTMENT

G. A. Belforth, Foreman

May, 1961

### COST REPORT

YEAR TO DATE		CURRENT MONTH	
Actual	Gain (Loss)	Actual	Gain (Loss)
\$ 87,500	\$ (7,000)	\$19,000	\$ (1,200)
4,000	(400)	900	(150)
14,500	(2,700)	2,500	(500)
22,900	(4,050)	7,300	(100)
3,400	50	650	-
5,100	1,100	1,000	200
7,000	500	1,400	100
<u>3,500</u>	<u>(2,000)</u>	<u>650</u>	<u>(200)</u>
<u>\$148,500</u>	<u>\$ (14,400)</u>	<u>\$24,000</u>	<u>\$ (2,000)</u>

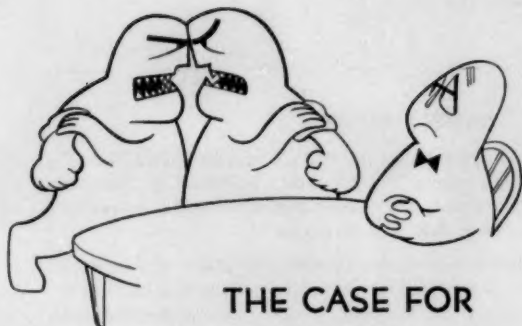
## SAMPLE REPORTS

For consistency throughout the report structure, the heading "Gain (Loss)" is used instead of the more common "Over (Under) Standard" or "Increase (Decrease)." *Gain* always means a variation that is favorable to profits; *Loss* always means a variation that is unfavorable.

1. The first report (at the bottom) shows the costs chargeable to the punch-press foreman for the current month and for the year to date, as well as variances above and below the foreman's budget. The punch-press foreman is held fully responsible for the costs shown in his report, since they represent usage of labor, materials, and supplies over which he has authority. The columns labeled "supervision" refer to his own salary and the salaries of supervisors reporting to him.

It should be noted that both fixed and variable costs are included in this report without distinction. The test is whether they are controllable by the foreman. He has, for example, the power to decide how many people to keep on his department's payroll and how much overtime is needed to get the work done on time. Even if these decisions must be reviewed at higher levels, the basic authority and responsibility are his. (If they are not, these expenses should not be charged to his account, but to the account of the executive who actually has the decision-making power in each case.)

2. In the second report from the bottom, the totals for the punch-press department—both actual and variance from the budget—are carried to the report for the foreman's immediate supervisor, the production superintendent. This report also shows total expenses for which each of the other foremen supervised by the superintendent are responsible. Normally, the superintendent will also receive copies of the more detailed reports given to his subordinates; he also receives a complete statement of the expenses chargeable directly to his own department (supervision, secretarial, space, etc.), broken down like those for the organizational units under him.
3. The manufacturing vice-president's report summarizes the results reported to the production department and the other departments for which he is responsible, as well as the expenses of his own office that cannot be fairly assigned to any of those subordinates.
4. The income and expense statement at the top is the president's report. It summarizes the costs incurred by the manufacturing, sales, engineering, finance, and personnel groups, plus the president's own costs. ♦



## THE CASE FOR

# the Permanent Arbitrator

*Condensed from Industrial Relations News*

**T**HE USE OF ARBITRATION to settle disputes over contract interpretation is now widely accepted in industry. Less accepted—and the subject of heated debates among personnel executives and among arbitrators themselves—is the growing use of the “permanent” arbitrator.

### **Two Kinds of Arbitrator**

Arbitrators are brought into a dispute by mutual agreement of labor and management. Contract clauses call for one of two types of arbitrator. The first, and by far the most common, is the *ad hoc* arbitrator, brought in to settle disputes that the parties fail to clear up themselves. The second is the permanent arbitrator, selected in ad-

vance of any contract disagreements. When a dispute does arise, the permanent arbitrator can be called upon to settle it.

The average permanent arbitrator sits alone in a quasi-judicial role and is appointed solely to interpret and rule on contract provisions. Sometimes he is appointed as the only impartial member of an arbitration board. In either case, he may be authorized to mediate contract disputes as well.

### **Term of Service**

A permanent arbitrator is selected for a designated period, rather than for one case or a specific group of cases. He may serve for the duration of the contract or—as spelled out, for example, in the contract be-

*Industrial Relations News (March, 1961), Industrial Relations Newsletter, Inc.*

tween Ford Motor Co. and the United Automobile Workers—"only so long as he continues to be acceptable to both parties."

An umpire hired for the duration of the contract may often be rehired when the contract is renewed. The agreement for the ladies' dress industry, for example, specifies that the arbitrator serve until the contract runs its course; Harry Uviller has been the industry's impartial chairman in New York City for 25 years.

### **Costs of Arbitration**

Many permanent arbitrators receive a retainer paid equally by labor and management, and handle as many cases as come up. One top umpire, for example, receives a thirty-thousand-dollar annual retainer. Others receive a smaller annual retainer, plus \$100 to \$150 a day for professional services.

One criticism of arbitration in general is its high cost. Supporters of arbitration, however, claim that this very factor encourages disputants to work out their problems themselves. Proponents of permanent arbitration claim their system normally costs less, over all, than the one-shot method—that since the permanent umpire is selected in advance, he can step in quickly when needed. And speed is often essential, particularly in cases involving discharges or serious grievances causing a decline in productivity. If both sides first have to

decide on an arbitrator, disagreement at that point delays final settlement of their dispute.

Moreover, say the permanent arbitrators themselves, their previous experience with the union and the company, and familiarity with the issues and the personalities involved, help them settle cases more quickly. Professor Maurice Trotta, of New York University's School of Commerce (and permanent umpire for New York City's restaurant industry for seventeen years), estimates that the permanent arbitrator often is able to dispose of two cases a day. Harry Uviller clears up such disputes as discharge, stoppage, lock-out, or large payments for back pay within two days. A temporary arbitrator, brought in cold, would take twice the amount of time, some experts say.

### **Consistency**

The permanent arbitrators claim their system automatically reduces the number of arbitration cases because the parties are likely to know how their umpire ruled on a similar issue before. This consistency, they say, also avoids the confusion resulting when one temporary arbitrator rules differently from another on substantially the same question. Furthermore, says Joseph Shister, chairman of the Department of Industrial Relations at the University of Buffalo, disputants under a contract calling for one-shot arbitration are more inclined to "gamble" on a

favorable verdict by a new umpire if they lost on a similar issue previously. This attitude tends to increase the number of cases going to arbitration, thus pushing costs up.

Critics of permanent arbitration say that the parties will often "pass the buck" to the regular umpire instead of trying to settle the dispute themselves. But this, say the arbitrators, may be overcome by the retainer/per diem method of payment to the permanent arbitrator.

### **Mediation**

One of the additional functions sometimes assumed by the permanent arbitrator is mediation. There is argument over whether or not he should. Prof. George W. Taylor of the University of Pennsylvania's Wharton School of Finance feels that the essential function of most impartial chairmen is to bring about a meeting of minds, if possible. "Given full confidence," says another top arbitrator, the permanent umpire "can take the risk of mediation before arbitration. Many cases are better disposed of through mediation than arbitration."

Strict arbitration often ignores extenuating circumstances, where mediation takes these into consideration, say the permanent arbitrators who also operate as mediators. Nevertheless, some contracts restrict the permanent arbitrator to the practice of arbitration only.

### **Free to Call the Shots?**

The permanent arbitrator must, by the nature of his assignment, live with every decision he makes, since he may be confronted with one of his past verdicts at any time during the length of his tenure. This, critics say, points up a major weakness in the system. Permanent umpires, in their opinion, strive to please both parties, while the temporary arbitrator is freer to call the shots as he sees them. Prof. Trotta feels this view is unsound. Presumably, he explains, the parties select their permanent arbitrator for his integrity and his reputation. Should the umpire fall down on the job, he need not be retained if the agreement calls for an arbitrator who is "mutually acceptable to both parties." ♦

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ACID TEST: If you look at the production of sulphuric acid, economists say, you'll get a good idea of the nation's industrial activity. Sulphuric acid, reports *The Biddle Survey*, is used in most basic industries: in the manufacture and processing of such important products as iron and steel; petroleum; rayon and other textiles; ores and metals; pigments and colors; explosives; coke and coal-tar products, including dyes and drugs; storage batteries; synthetic detergents; synthetic rubber; and aluminum sulfates. Thus the experts conclude that production of this one commodity moves along with such other indicators as GNP and the Federal Reserve Index of Industrial Production.



# The Businessman — Trustee for Society?

*Condensed from The Business Quarterly*

**By Ronald S. Ritchie**

**T**HE VIEW is insistently advanced that business has important social responsibilities. The opinion is firmly held within business, academic, and political circles that social justice and corporate good citizenship are at least as important guides to business decisions as is the profit test. Many hold, further, that the tests of the market place no longer lead to actions that are in the common interest.

What does the businessman owe the community? There is little agreement in the minds of businessmen themselves or of the community at large. There is, however, a clear link between the businessman's skills and what society should expect of him: The community's most important claim on him is that he be a good business manager.

The businessman's function is an economic one, and the test of how well it is performed must also be an economic one. Many people contribute to the economic welfare of the community. But no other group is so critically placed to affect that welfare, for good or ill, as are business managers. The business manager is a trustee for the society of which he and his organization are parts.

The idea that the manager is a trustee for the shareholder is a familiar one; the idea that he holds and administers assets and resources in trust for society as a whole is less commonly held. Yet trustee he is. Neither shareholders nor society can afford to waste capital by poor business decisions. The skill of the business manager,

*The Business Quarterly* (Vol. XXV, No. 4), School of Business Administration,  
University of Western Ontario.

and his responsibility, is to combine human and material resources to the greatest economic effect. Only by good business management can the businessman serve both his enterprise and the community well. In any but the most shortsighted view, the test of his performance should be the same in the eyes of both the community and the owners of the enterprise.

### ***The Businessman as an Individual***

While the community has the right to expect the businessman to be good at his job, it should in its own interest ask something more: It should ask him to make a contribution, out of his special competence, to the continuous debates on a wide variety of fundamental social, economic, and political questions. These questions have their origins partly in technological change, partly in a questioning of old values. Many have important economic implications. The businessman is immersed in the economic system and should be able to make an intelligent contribution to much of the decision-making of the community. The community should expect him to do so.

One such debate involves the future of our economic system itself. The strengths and weaknesses of the enterprise system are crucial to our economic, and perhaps our political, well-being. The values of the system have been critically examined over the years and will

continue to be. The system is being continuously modified by legislation, regulation, taxation, and subsidy; by labor, professional, and industrial combinations; and by changing social attitudes.

Unless there is continuing and deliberate emphasis upon what is fundamental to the system, this inevitable process of change involves serious risks. Businessmen have a major responsibility here to the community as well as to their own firms. To discharge it, businessmen must provide public leadership in thought and in action. They must be prepared to explain to governments, to their own employees, and to the public how the enterprise system works and why society has a stake in conserving it. They must rigorously discipline themselves to avoid serving their own interests by tampering (in public or in private) with the principles of the enterprise economy that they support. They must be willing and able to put public and industry policies to this test: Are these policies consistent with maintaining the values of the enterprise system?

### ***Insight and Foresight***

These efforts call for both insight and foresight. Easy acceptance of unwarranted labor demands, for example, may be just as destructive in the long run as stubborn rejection of more reasonable requests. Undesirable legislation may sometimes result from short-sighted business

practices, sometimes from unwise business requests for special help, sometimes as a result of inadequate public understanding of the real implications of particular government action. Business leaders, properly aware themselves of the foundations of our economic system, could help to prevent—or remove the need for—such action.

The businessman's task is no easy one. No person or group can have a completely objective understanding of the complex and changing enterprise system. But the business leader can keep himself up to date on questions of legislation and regulation related to his firm, his industry, or the economic well-being of the nation. He can make his views known to other businessmen and he can, individually and with others, make representations to public

bodies. He can respond, in a variety of ways, to the natural interest of his own employees in company and public issues. As a member of one group with special knowledge and experience, he should be expected to make such contributions.

Professional competence in his job plus participation and leadership in the economic and social debates of our time do not end the businessman's responsibility. He is expected as a citizen and often as a representative of his firm to play a large role in community activities. Many community group efforts need some of the management skills that the business world itself requires. Businessmen as private citizens and the enterprises that employ their working talents have some reason and responsibility to contribute to this need. ♦

## One Way to Reduce R&D Costs

WOULD YOU like to get the results of hundreds of thousands of dollars of research—for only a few dollars? Many companies have, by drawing on the wealth of technical information made available to industry by the U.S. Department of Commerce's Office of Technical Services, reports *The Iron Age*. OTS—the clearing house for technical information generated by government-sponsored research—offers the following material:

- *Research reports*: abstracts of newly-released reports of government, or government-sponsored, research.
- *Selected bibliographies*: Lists of material in special areas of interest, such as welding, transistors, beryllium, abrasives, etc.
- *Patent abstracts*: Descriptions of government-owned patents which may be licensed on a non-exclusive, royalty-free basis.
- *Technical translations*: Lists and abstracts of technical literature translated from nongovernment sources, foreign and domestic—as well as collected translations from both U.S. and foreign government sources.
- *Technical newsletters*: Monthly technical reports of special interest to small and medium-sized companies.



## **AIR POLLUTION and COMMUNITY RELATIONS**

**By G. Edward Pendray**

*Condensed from an address before the Air Pollution Control Association*

**C**OMPANIES often get into trouble with their communities, and a common point of departure is air pollution. Despite the fact that every important city and industrial community has established some sort of air-pollution control operation and that technical literature on the subject has grown mountainous, the problem still exists.

What should a plant management do when the local community accuses it of polluting the air? One answer, of course, is to use the proper technology to eliminate any pollution that may be taking place. But only when this approach is combined with sound public relations can the company be reasonably sure not only of getting out of trouble

but of avoiding it in the future.

The following program for solving a community problem brought about by an accusation of air pollution—or similar complaints—may be helpful.

When trouble threatens, act promptly, but not hastily. It is dangerous to react emotionally or on partial or possibly erroneous information. It is possible at this point to make blunders that subsequent action can hardly repair.

Find out clearly and in detail what the situation really is. This involves learning exactly what the complaint is, who is complaining, on what experience or evidence the complaint is based, and whether the complaint is an isolated case or

part of a major community movement. The preliminary inquiry should reveal whether there is truth in the accusation, and what should be done to remove or alleviate the cause.

Tell the people involved what you have done or are planning to do. The complainers should be told exactly what the company is going to do about their complaints. If complaints have been published in the local newspapers, a statement explaining the company's position and intentions should be issued to the press. These announcements should be made without heat or emotion; they should be factual.

Solve the difficulty, so far as possible or practical. Of course, reassurance or soothing words alone cannot take the place of concrete action to solve the problem—provided air pollution really exists. If it does, an investment in research or equipment will probably have to be made sooner or later—and the longer the delay, the greater the cost in loss of community goodwill.

#### **Tell Them Your Plans**

If the program takes some time, give frequent progress reports. The application of technology to air pollution control almost always requires that a study be made, a budget obtained, and equipment ordered and installed—and consequently it takes time. It is, therefore, important to let the community know what is planned *before*

action is taken. Otherwise the response to the complaint may be delayed so long that the situation will get out of hand. The memory of a community is short—and in the presence of a nuisance, its patience may be even shorter. But people will usually be patient if they are convinced that action is being taken as rapidly as possible.

#### **Explain Why**

If more time is necessary—or if nothing can be done immediately—report this frankly, and explain why. Candor and completeness are essential. If immediate steps cannot be taken, some kind of timetable should be developed to establish when action will be taken—and what kind of action is contemplated.

In dealing with air pollution complaints, do not use words or promises as a substitute for remedial action. Do not ignore protests or deny the existence of a problem without investigating. Do not attempt to justify air pollution on economic grounds—with such comments, for example, as “more smoke means more jobs,” “if the town wants our taxes it will have to put up with some of our fly ash,” etc. Do not assert that “the plant was here first, and the complainers should have known better than to build their houses so near it.” Do not threaten to move the plant to some other community unless you mean it, for your bluff may be called.

When the industrial plant recovers from its difficulties, what should it do to steer clear of future air pollution problems? It should, first of all, try not to produce any objectionable degree of smoke, fly ash, bad odors, gases, or noise. This is easier said than done; practicably, it usually cannot be achieved without organized effort and constant attention.

### ***Prevent Complaints***

A company should not hold back on any reasonable expenditures for necessary equipment or research to control air pollution, even though no complaints have yet been voiced, and even when there is little or no likelihood of getting any return on investment other than in the valuable form of community good will.

The plant manager should keep constantly in mind that control equipment by itself cannot be depended upon to prevent contamination of the air. It must be policed, it must be maintained, and it must be properly operated. He must at all times insist on care by operating personnel. Many successful plant pollution-control programs treat air pollution in the same way and with as much seriousness as they treat safety and accident prevention. If the plant is large enough, it usually pays for the plant manager to assign air pollution control as a full-time responsibility to one man.

It also pays to maintain a thorough program of information for

employees. Many an employee is embarrassed by a neighbor's complaints about his company, but doesn't know how to reply effectively because he has not himself been properly informed. Sometimes, in the absence of any information to the contrary, the employee is apt to agree with the complainer, thus adding fuel to the fire. A thoroughgoing employee information program helps employees speak up on behalf of their company; this is often more effective in the community than most educational efforts emanating from the head office.

### ***Community Relations***

The company should at all times cultivate good relations in general with the community. A plant frequently gets into trouble over air pollution or another point of friction simply because the community has some deeper dissatisfaction with the organization. If the company's community relations are bad, dealing merely with air-pollution complaints may only be treating symptoms. When air-pollution complaints are persistent—especially when the company is giving little or no cause for them—the manager should find out whether the real trouble lies elsewhere. An inexpensive, professionally conducted field check will soon indicate whether this is in fact the case. If it is, the only lasting answer is to correct the basic cause. ♦



# Fix It *Before* It Breaks

By Ralph E. Winter

*Condensed from The Wall Street Journal*

**O**NE LARGE COMPANY saves money by replacing light bulbs before they burn out. It may seem wasteful, but the practice makes good sense to maintenance men at the Milwaukee plant of the McGraw-Edison Company. Working on a regular schedule, they replace all bulbs in the plant every few weeks. They used to replace each bulb only when it burned out—which frequently kept them scurrying from one end of the big plant to the other. Now the company figures that the saving of maintenance men's time more than offsets the additional outlay for light bulbs.

## **Other Ways to Slash Costs**

Other types of preventive maintenance are helping slash costs in many companies. A survey of more than sixty companies shows that three out of four are stepping up efforts to save money through preventive maintenance. They're inspecting and lubricating machines at carefully calculated intervals, working to develop trouble-free equipment, and setting standards to help improve the efficiency of maintenance workers.

"There's an almost untapped

source of cost reduction in maintenance," says John M. Link, maintenance chief at Western Electric Company's Burlington, N.C., plant. "If the management interest and modern techniques that have been applied to cutting production expenses were applied to maintenance costs, most firms could easily reduce maintenance costs by almost 25 per cent. And that's a lot of money."

Western Electric found that careful checks and periodic overhauls of equipment play the biggest roles in cutting maintenance costs. Besides enabling maintenance men to catch minor damage before it causes a costly breakdown, scheduled maintenance distributes maintenance work more evenly, Mr. Link notes. "Many maintenance supervisors still rely on their memory and judgment—even intuition—to administer their programs," he says. "That's neither good nor economical."

## **Reducing Down Time**

By instituting a systematic inspection and lubrication program, Fox River Paper Corp., Appleton, Wis., cut over-all maintenance charges from \$190,000 four years

*The Wall Street Journal (March 7, 1961), © 1961 by Dow Jones & Company, Inc.*

ago to about \$132,000 in 1960. These costs include down time on each of the two big paper machines at the plant; for each hour a machine is unfit for operation, the maintenance department is charged \$200 because of lost production.

"We used to play it all by ear and we weren't particularly worried about substituting lubricants," reports M. H. Buhner, chief engineer. "Now our men follow carefully detailed lubricating instructions right to the letter. We have separate books for nearly every machine we've got."

Most maintenance men are enthusiastic about preventive maintenance, but some complain that management often is reluctant to spend extra money to get such programs into operation. Some maintenance programs get going without extra cash, but in others upkeep expenses rise while the programs are getting under way. It cost \$29,000 to get the preventive maintenance program started in General Electric's Schenectady, N.Y., motor and generator plant, reports GE's Charles A. Fenton. However, he now figures savings at \$33,800 annually, exclusive of reductions in down time.

#### **Maintenance vs. Production**

Friction sometimes develops between production and maintenance departments when production men have to shut down a machine they believe is operating perfectly. "The

operating people used to just holler and we'd come running," says one maintenance supervisor. "Now the maintenance is all scheduled and they have to shut down pieces of equipment according to our timetable for inspection and maintenance. It makes them feel that we're taking away their authority."

#### **Stumbling Blocks**

In some plants, these clashes prove to be impossible stumbling blocks. "I've got a schedule for preventive maintenance all worked out on paper, but that's as far as it goes because I can't get top management to go along with me," complains the maintenance foreman for a stamping and shearing mill. "If they would let me stop a machine for a couple of days, take it apart, and make minor repairs, it would often eliminate one to three weeks' breakdown later on. One time I asked them to shut down a forging machine so I could make repairs I thought it needed," he recalls. "But they decided to run it until they finished the order of truck axles they were working on. The machine broke down completely and it cost \$33,000 to repair it. And it was down four weeks while we were locating parts for it."

Where these problems don't exist—or where they've been resolved—important savings are often realized. A key role in preventive-maintenance programs in a growing number of companies is being played by

maintenance engineers, who pinpoint and then eliminate trouble spots in equipment. For example, at P. H. Hanes Knitting Co., Winston-Salem, N.C., maintenance engineers discovered from a close look at their records that the plant's bleaching machines were breaking down too often. "It wasn't unusual to have them down once a week for some reason or another," says W. M. Lockrow, plant engineer. Each breakdown meant that at least a thousand workers were idle for as long as four hours. The Hanes engineers traced most of the trouble to failure of a small metal bearing, and they set about developing a new one. "Now those machines are rarely down except for the scheduled maintenance checks we make in nonproduction hours," Mr. Lockrow reports.

Maintenance work sampling—finding out how many hours a man

spends doing actual maintenance work and how much time he wastes hunting tools and traveling about the plant—is paying off for many firms.

Using these studies to help them cut wasted time, Riegel Paper Corp., Acme, N.C., has sharply boosted the efficiency of maintenance men, says Clifton B. Vann, maintenance superintendent.

Electronic computers are being used more and more in maintenance departments. Union Carbide Nuclear, a subsidiary of Union Carbide Corp., uses a computer to schedule maintenance work. Computers at an American Cyanamid Co. plant "remember" some 24,000 items of maintenance history. And Phillips Petroleum Co. employs computers to keep maintenance-cost records and to control inventories of spare parts in company warehouses. ♦

### **Annual Reports: Disservice to Management?**

ANNUAL REPORTS to stockholders may be doing a disservice to management, says Prof. J. Harold Janis of New York University, after reviewing copies of the annual reports of several hundred U.S. companies.

Annual reports, says Janis in *Business Week*, make management people seem "quite dull." Photographs are nondescript. The news is brief and sterile. The introductory letter from the president or chairman is often stuffy and long-winded.

Janis finds these reports often patronizing toward employees. "Some companies prefer not to speak of their employees at all. One company with 60,000 employees mentioned them in all of one sentence."

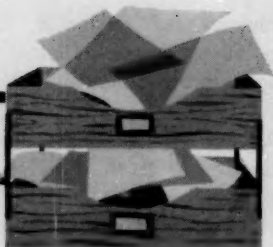
"Annual reports," Janis concludes, "should not look and sound like the company's sales catalog." Nor should it go into irrelevant issues, be too optimistic about company developments, gloss over unpleasant matters, or fail to take account of the views of outside groups.

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## ALSO RECOMMENDED

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*summaries of other timely articles*



### GENERAL

#### **KEEPING A HIGH SHINE ON ETHICS.**

*Business Week* (330 West 42 Street, New York 36, N. Y.), March 25, 1961. 50 cents. Do you or any near relative serve as a director, officer, or committee member of another corporation? Own stock or other interests in any supplier, customer, or competitor (omit under 1 per cent interest in publicly traded stock)? Receive any fees, gifts, or loans of money or services from any supplier, customer, or competitor? Executives in some companies are answering questions like these on questionnaires prompted by growing concern about conflict of interest and business ethics in general, according to this article, which gives a rundown on what companies are doing in this area. In some companies, resolutions outlining company policy are passed by the board; in others, periodic conferences are held between the chief executive officer and top executives.

#### **ANNUAL REVIEW OF CURRENT BUSINESS.**

*Survey of Current Business* (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C.), February, 1961. 30 cents. Strong spots in the economy at the beginning of this year continued to be exports, consumer purchases of services and of some

nondurable goods, and government demand, according to this annual business review. The review of 1960's economy is organized in these categories: (1) analysis of national output and income, including consumer income and spending, investment, government programs, and national income; (2) foreign business and investment; (3) pattern of production and trade, including industrial production, farm production and income, retail trade, and employment trends; and (4) energy output and use related to gross national product.

#### **ECONOMETRICS FOR MANAGEMENT.**

By Edward G. Bennion. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints \$1.00. Why is the top executive usually averse to using economic models, when they can be so helpful to him in decision-making? The author gives reasons for current skepticism and antagonism toward models and urges the econometrician and the programmer to convince business of the value of their products. He discusses econometric models—what they are, and what they can do to help with decisions; the nature and advantages of linear-programming models; and the vital role of executive judgment.

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#### **WHAT GOOD ARE ANNUAL MEETINGS?**

By T. A. Wise. *Fortune* (Time & Life Building, Rockefeller Center, New York 20, N.Y.), April, 1961. \$1.25. Some companies zealously seek stockholders' participation in annual meetings and go out of their way to accord them not only rights but extra courtesies; I.B.M., for example, this year invited its shareholders to go on a research-plant tour, eat a

box lunch, and ask unlimited questions. Other companies make it difficult to attend or participate; one company last year, for instance, had no public-address system. This article discusses what stockholders should be entitled to know about profits and inside operations, as well as what information various corporations actually make available, and includes an account of Lewis D. Gilbert.

### **INDUSTRIAL RELATIONS**

#### **ASSIMILATING THE COLLEGE GRADUATE: A CHALLENGE TO INDUSTRY.**

By Robert D. Garton. *Personnel Administration* (4614 Edgefield Road, Bethesda, Md.), January-February, 1961. \$1.25. Although industry has instituted various orientation, training, and counseling programs for the college graduate, difficulties of transition from campus to industrial life still exist. In the author's opinion, this situation stems primarily from lack of college preparation for the more prosaic aspects of industry, such as repetitious clerical work, initially restricted responsibilities, and cost reduction. Even so, he believes, the transition can be alleviated by the right kind of training, and he gives guidelines for doing so; it is important, he maintains, that the college trainee be taught not only *what* is being done, but *why* it is being done a certain way.

#### **PROGRAMED LEARNING AND TEACHING MACHINES IN INDUSTRIAL TRAINING.**

By Jerome P. Lysaught. *Journal of the American Society of Training Directors* (330 West 42 Street, New York 36, N.Y.), February, 1961. \$1.00. Based on experiments with programed learning for internal training at Eastman Kodak, this article reports that the technique is a forceful tool for improving learning. The author describes the learning process in terms of stimulus and response, and he enumerates such advantages as constant interaction between learner and program; individualization of each learner's experience; presentation of a single stimulus at a time in selected order and relationship; consistent, immediate reinforcement of correct responses and immediate extinction of incorrect responses; and constant evaluation of student progress and program effectiveness.

### **MARKETING**

#### **HOW INDUSTRIAL COMPANIES SPEND THEIR AD DOLLARS.**

By H. Jay Bullen. *Industrial Marketing* (200 East Illinois Street, Chicago 11, Ill.), February, 1961. Reprints (including Part I) 25 cents. Part II of results from a nationwide industrial ad-budget survey gives dollar out-

lays for industrial ads and shows the importance of sales promotion among 216 advertisers in 23 different two-digit SIC industry groups. Some significant results: Collectively, the respondents plan to invest \$53.1 million in their 1961 advertising programs; budget composition

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and size are becoming a more integral part of a company's over-all operating policies; results from the previous year's budget are now a major factor in getting the new budget approved; and "omnibus" budgeting—devoting nearly the total budget to one medium—is virtually a thing of the past.

**SCIENTIFIC MARKETING: IDEAL AND ORDEAL.** By Alfred R. Oxenfeldt. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints \$1.00. The research project on the sources of sales success in the television-set industry described in this article was, in the author's view, a prototype of a relatively new kind of research, because it accepted the complexity of business life and attempted to adapt method to messy reality instead of shaping facts to fit a tidy formula. Although the project was abandoned, it yielded meaningful conclusions about the character of mar-

kets and shed light on the potential power of the scientific method in the field of marketing, as well as the nature of business judgment and intuition.

**INCENTIVE TRAVEL 1961.** *Sales Management* (1212 Chestnut Street, Philadelphia 7, Pa.), March 17, 1961. 50 cents. Once, when a company turned to travel as an incentive, its plans and operations followed a set pattern; today, there are as many variations in programs as there are companies, according to this article. Although each company has its own philosophy on the subject of incentive awards and its own ideas about how best to use them, three trends in incentive travel programs have emerged: (1) increase in business sessions during trips; (2) greater use of multiple-incentive trip sites; and (3) search for novelty to make the trip different. Included is a five-part formula designed to determine how much a company should invest in such programs.

## PRODUCTION

**13 WAYS TO UPDATE YOUR PM PROGRAM.** By A. F. de Long. *Factory* (330 West 42 Street, New York 36, N.Y.), February, 1961. Reprints 35 cents. Preventive maintenance practices are being modernized at a fast clip, according to the author, who discusses thirteen pointers for keeping up with them: maintenance of operating manuals for every plant and system; reliable cost accounting; check lists complete enough to insure thorough inspections; application of preventive maintenance only where it pays; realistic maintenance schedules; use of industrial engineering techniques; use of machine-repair data; aid from everyone up and down the line; better design of preventive maintenance; consideration of operating tolerances and activities; use of instruments to check the condition of

equipment and facilities; scientific control of spare-parts inventory; and updating of workers' skills.

**SPECIAL REPORT—POWERED SHOP TRUCKS.** By George Berkwitz. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), March, 1961. \$1.00. Users of powered shop trucks are demanding more speed, more power, and more versatility, according to the author, who reports that truck manufacturers are coming through with improvements to meet these requirements. Some of the things they're doing: standardizing some of the made-to-order "specials"; producing models with intermediate ratings (for instance, a 3000-pound model to fill the gap between the 2000- and 4000-pound units); adding new models that perform

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tasks the older models handled either too slowly or not at all; and equipping trucks with electronic sensing devices to send materials through plants to preselected stations without the help of an operator.

#### **USING PATENT LITERATURE EFFECTIVE-**

**LY.** By Hugh A. Kirk. *Automation* (Penton Building, Cleveland 13, Ohio), February, 1961. \$1.00. Although most often employed as an after-the-fact source to

prove the uniqueness of new invention, patent literature can also be used as a before-the-fact tool to generate new ideas for solving manufacturing problems. To aid in the advantageous use of this material, the author describes the classification system for patents and explains several methods of searching for and obtaining pertinent patents; he also gives typical examples of useful devices found in old patents.

### **FINANCE**

#### **THE EFFECT OF ELECTRONIC DATA PROCESSING ON AUDIT PROCEDURES.**

By Lansdale Boardman. *Systems & Procedures Magazine* (817 Penobscot Building, Detroit 26, Mich.), January-February, 1961. \$1.50. The fundamental audit technique of tracing specific items back to source documents has not changed with electronic data-processing, maintains the author, who discusses fundamentals before examining the effects of EDP. He provides information about scheduling procedures for the computer; elimination of errors stemming from equipment malfunction, error in the logic of the program, or use of the wrong program; relationship of the auditor to paperwork immediately outside the computer function; new audit techniques, such as complicated limit checks; and use of the computer as a direct audit tool—to pick truly random items for audit tests, for example.

#### **STRICT RULES LIMIT INVESTMENTS OF QUALIFIED PENSION AND PROFIT PLANS.**

By Isidore Goodman. *The Journal of Taxation* (147 East 50 Street, New York 22, N.Y.), March, 1961. \$1.50. In investing the funds of an exempt pension or profit-sharing trust, the trustees must not only heed the specific rules in the Code dealing, for example, with prohib-

ited transactions, but also be aware of how the courts and the IRS apply the general principles of nondiscrimination, exclusive employee benefit, and primary retirement purpose to the question of investments. The author analyzes these holdings, shows how they apply to investments of various kinds, and notes their application to insurance and annuity policies purchased by the trustee.

#### **TRAVEL AND ENTERTAINMENT EXPENSES.**

By Reinhold Groh. *Taxes* (4025 West Peterson Avenue, Chicago 46, Ill.), March, 1961. \$1.00. The Internal Revenue Service has cracked down on travel and entertainment deductions for taxable years beginning after 1959 in order to eliminate tax abuses in this area, according to the author, who provides detailed information on implications for businessmen. He discusses such matters as additional information required on returns; how the Internal Revenue Service defines *business*, *overnight*, and *expense account allowance*; deductible and non-deductible expenses; gross, adjusted gross, and taxable income; entertainment, transportation, and club expenses; wife's expenses on a business trip; records and reporting requirements; reporting by employees; and travel for combined business and pleasure.

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## SURVEY OF BOOKS

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### INTERNATIONAL MANAGEMENT

**LAW AND UNITED STATES BUSINESS IN CANADA.** By Kingman Brewster, Jr. Canadian-American Committee sponsored by National Planning Association (U.S.A.) and Private Planning Association of Canada, 1960. Available from National Planning Association, 1606 New Hampshire Avenue, N.W., Washington 9, D.C. 30 pages. \$1.00. This study of the effects of U.S. law on Canadian subsidiaries of U.S. corporations analyzes the relevant provisions of our tax law, antitrust law, and foreign assets control and describes their economic effects as well as what the Canadians think and feel about them. The author illustrates his points with specific cases and rulings.

**SMALL INDUSTRY DEVELOPMENT ORGANIZATIONS: A Worldwide Directory.** Compiled by Donald R. Liggett. The Free Press of Glencoe, Illinois, 119 West Lake Street, Chicago 1, Ill., 1959. 137 pages. \$10.00. Information about some 300 organizations engaged in promoting the development of small industry, with particular emphasis on activities in and for the less developed countries. The list begins with international organizations and then covers 78 individual countries. A publication of the International Industrial Development Center of the Stanford Research Institute.

**PROFIT SANCTUARIES & HOW THEY ARE USED.** (1960 edition.) *Business International*, 200 Park Avenue South, New York 3, N.Y., 1960. 56 pages. \$30.00. This edition takes account of recent changes in law and administration in the 15 profit-sanctuary countries covered and presents the latest experiences of U.S. companies operating there. In addition, a considerable amount of new material appears in the articles supplementing the country-by-country review that constitutes the main body of the report. The contents of the earlier articles have also been brought up to date.

**THE MARKETING OUTLOOK OF THE FREE WORLD: A Decade of Incentive.**

Marketing Communications Workshop, McCann-Erickson, Inc., 485 Lexington Avenue, New York 17, N.Y., 1960. 85 pages. Single copies, gratis. As a picture of the marketing opportunities to be offered by 20 countries during the Sixties, this booklet presents, in chart form, estimates of the changes these countries will undergo in population, national output, family income, and so on. The 33 charts and accompanying text are printed in five languages: English, French, German, Spanish, and Portuguese.

**BARRIERS TO TRADE BETWEEN CANADA AND THE UNITED STATES.**

By Francis Masson and J. B. Whitely. Canadian-American Committee sponsored by National Planning Association (U.S.A.) and Private Planning Association of Canada, 1960. Available from National Planning Association, 1606 New Hampshire Avenue, N.W., Washington 9, D.C. 97 pages. \$2.00. This report on governmental restrictions and controls analyzes in detail the tariff systems of the two countries, the United States' quota system, Canada's import controls, and such forms of "administrative protectionism" as special provisions for valuation and classification, marking regulations, and copyright, patent, and trade-mark provisions. It also deals separately with the effects of these trade barriers on a number of commodities and products. Numerous tables are provided.

**ASPECTS OF EAST-WEST TRADE: Policies, Experiences, and Practical**

**Guides.** (AMA Management Report No. 44.) International Management Division, American Management Association, Inc., New York 36, N.Y., 1960. 95 pages. \$2.25 (AMA members, \$1.50). This report contains eight papers originally presented at an AMA briefing session on "The Terms and Procedures of East-West Trade," several of which have since been revised to account for recent developments. Also included is a paper by Trade Research Associates on procedures and methods of U.S.-Soviet trade.

**AMERICAN BUSINESSMEN AND INTERNATIONAL TRADE: Code Book and Data from a Study on Attitudes and Communications.**

Study directed by Raymond A. Bauer and Ithiel de Sola Pool. The Free Press of Glencoe, Illinois, 119 West Lake Street, Chicago 1, Ill., 1960. 145 pages. \$5.00. The raw data from a survey in which 900 business leaders were questioned on their attitudes toward tariffs, their behavior in attempting to influence tariff regulation, their sources of information about tariffs and foreign trade, and the like. This volume is preliminary to a report on the research.

**THE STATESMAN'S YEAR-BOOK 1960-1961.**

Edited by S. H. Steinberg. St. Martin's Press, Inc., 175 Fifth Avenue, New York 10, N.Y., 1960. 1677 pages. \$9.50. The 97th edition of this British statistical and historical annual covers 15 international organizations and over 90 countries and,

as did its predecessors, presents information gathered from unofficial as well as from official sources. Among the features of this edition are recent statistics on the economic and military organization of the U.S.S.R. and the names of the diplomatic representatives and staff of all U.S. embassies and of all foreign embassies to the United States.

**MARKET RESEARCH ON A EUROPEAN SCALE: Paris Conference, 29th June—1st July, 1959.** The European Productivity Agency of the Organisation for European Economic Co-operation, Paris, France, 1960. Available from Publications Office, O.E.E.C. Mission, 1346 Connecticut Avenue, N.W., Washington 6, D.C. 138 pages. \$2.00. At the conference reported here, approximately a hundred experts from 16 countries considered how market research could be applied to the larger European marketing areas now coming into being and how its application could be facilitated. This booklet includes some of the papers read, the transcript of a panel discussion, the reports of three working commissions, and the recommendations that emerged from the conference.

**INVESTING AND LICENSING CONDITIONS IN 37 COUNTRIES.** (Fifth annual edition.) *Business International*, 200 Park Avenue South, New York 3, N.Y., 1960. 154 pages. \$60.00. Up-to-date information—as of the end of 1960—on the conditions affecting foreign investments in 37 countries of Europe, Latin America, Asia, and Africa—three more countries than were covered in the last edition. For each country, the book outlines pertinent laws and regulations, tells how they are administered, and notes any relevant economic and political conditions, drawing on the experiences of American companies.

**INDUSTRIAL ESTATES: Tool for Industrialization.** By William Bredo. The Free Press of Glencoe, Illinois, 119 West Lake Street, Chicago 1, Ill., 1960. 240 pages. \$6.00. The use of industrial estates or parks for the development of small- and medium-scale enterprises is the subject of this study by the International Industrial Development Center. Based on the experiences of 22 countries, the study is primarily economic rather than technical in approach, and focuses on the needs and problems of newly industrializing countries.

**MARKET RESEARCH IN INTERNATIONAL OPERATIONS: Tools, Techniques, and Organizational Approaches.** (AMA Management Report No. 53.) International Management Division, American Management Association, Inc., New York 36, N.Y., 1960. 88 pages. \$2.25 (AMA members, \$1.50). A collection of seven papers on such topics as organizing, planning, and staffing market research activities in an international corporation; the role of the independent research organization; sources of data and techniques; and input-output analysis as a tool of international market research. Two case studies are included.

## RESEARCH AND DEVELOPMENT

**THE RESEARCH REVOLUTION.** By Leonard R. Silk. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1960. 244 pages. \$4.95. A highly readable discussion of what the author calls the "new element" in the process of economic growth: systematic technological innovation through scientific advance. Among the subjects covered are the nature and forces of growth, the possibility of achieving balanced growth, and implications of the research revolution for national policy and business policy.

**TECHNICAL COMMUNICATION.** By George C. Harwell. The Macmillan Company, 60 Fifth Avenue, New York 11, N.Y., 1960. 332 pages. \$5.00. A straightforward, no-gimmick text on communicating technical information. The three introductory chapters deal with the elements of good writing (with particular reference to technical subject matter), the organization of material, and the various methods of exposition. Succeeding chapters cover particular forms of communication—business letters, technical reports (which are treated at some length), magazine articles, and speeches—and the preparation of illustrative tables and figures. A review of the general principles of composition and a glossary of usage are also provided.

**HANDBOOK OF INDUSTRIAL RESEARCH MANAGEMENT.** Edited by Carl Heyel. Reinhold Publishing Corporation, 430 Park Avenue, New York 22, N.Y., 1959. 513 pages. \$12.00. Directed at top management, research directors and their assistants, and financial executives, this handbook is the work of 34 authorities from a number of fields. Its contents include articles on management objectives and bases for evaluation, organizing for research, outside research, basic research, and patents; the establishment and direction of research projects, departmental administration, and the use of electronic computers in research; and sections on accounting, control, and evaluation, personnel administration, and research for governmental agencies.

**THE NEW PRODUCT: How to Find, Test, Develop, Cost, Price, Protect, Advertise and Sell New Products.** By Delmar W. Karger. The Industrial Press, 93 Worth Street, New York 13, N.Y., 1960. 234 pages. \$5.00. A step-by-step guide for companies experienced in new product development as well as for those just starting out, this manual approaches its subject from the viewpoint of general management. Several check lists are provided.

**AN OUTLINE OF UNITED STATES PATENT LAW.** By Richard E. Brink *et al.* Interscience Publishers, Inc., 250 Fifth Avenue, New York 1, N.Y., 1959. 280 pages. \$7.50. The laws on obtaining a patent and enforcing the rights granted under it have been organized by the authors in a logical sequence and are here presented in outline form. In addition, the

two major laws covered, *Title 35 of the United States Code* and the *Rules of Practice of the United States Patent Office in Patent Cases*, are reprinted in their entirety.

**MAINTAINING THE PRODUCT PORTFOLIO: The Commercial Development Concept.** (AMA Management Report No. 42.) Research and Development Division, American Management Association, Inc., New York 36, N.Y., 1960. 87 pages. \$2.25 (AMA members, \$1.50). This report, based mainly on presentations at AMA's 1959-1960 R&D conferences, focuses on the concept of commercial development and the ways in which it can help management to achieve a sharper product strategy. Several ways of acquiring the necessary know-how are discussed, and case histories of two companies successful in strengthening their development programs are presented.

**PATENT RIGHTS UNDER GOVERNMENT CONTRACTS.** Economic Problems Department, National Association of Manufacturers, 2 East 48 Street, New York 17, N.Y., 1960. 11 pages. \$1.00. This booklet examines recent and pending legislation on federal patent policies and argues that progress under the government's R&D program depends on investors' being allowed to retain the patent ownership of, and commercial-development rights to, their inventions.

**DEFENSE R&D CONTRACTS GUIDE.** (1960 edition.) Edited by Lt. Col. Jesse L. Lewis. Vincent F. Callahan, 1420 New York Avenue, N.W., Washington 5, D.C., 1959. 212 pages. \$25.00. Compiled and published by the staff of the weekly *Defense R&D Contracts Report*, this reference work shows how and where to obtain contracts for research, engineering, and test evaluations from 228 separate installations of the Army, Navy, Air Force, and Advanced Research Projects Agency.

**INDUSTRIAL DEVELOPMENT: A Guide for Accelerating Economic Growth.** By Murray D. Bryce. McGraw-Hill Book Company, 330 West 42 Street, New York 36, N.Y., 1960. 282 pages. \$7.50. A practical manual on the preparation, analysis, and appraisal of industrial projects for underdeveloped regions, focused primarily on the problems of smaller foreign nations but also applicable, the author suggests, to problems of the industrially underdeveloped sections of North America.

**PRACTICAL EXPORTING AND IMPORTING.** (Second Edition.) By Philip MacDonald. The Ronald Press Company, 15 East 26 Street, New York 10, N.Y., 1959. 550 pages. \$6.50. A revision of the 1949 edition designed to take account of the growing international awareness of the American people, the expansion of the search for foreign markets on the part of the business community, the increasing investment of United States capital and skill in the industries and commerce of foreign countries, and the impact of government programs on our international trade.



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Because of the nature of the Executive Compensation Reports, subscriptions are available only to officials of private industrial and commercial firms—presidents or other executives to whom responsibility for the planning and administration of compensation has been delegated.

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